FOREST TAXATION ¹

By F. G. RAINSFORD ²

In discussing Forest Taxation, it is important that you know of some of the forest history in this Province. From the time of the early explorers, who first cut timber spars for their sailing vessels, until the end of World War Two, the logging industry was generally a clear cut and get out business.

The reasons for this were many, and perhaps the main reason was that early loggers were out to make a fortune in our vast area of so called inexhaustible timber. The Government also realized the wealth of timber in B.C. In 1887, the Land Act of 1884 was amended to prohibit the sale of Crown timber land. Because of this policy, which has been adhered to ever since, we have today the small proportion of 7% of the timber area in B.C. in private ownership. In 1937, approximately 70% of the private ownership was on Indian Reserves or small holdings. The remaining 30% was divided between the larger timber land owners and the E. & N. Railway Grant.

Before 1906 many timber and pulp leases were granted for renewable periods of 21 years. Timber Leases are subject to a ground rental of \$140 west and \$100 east of the Cascades. Pulp leases pay a rental of 4c an acre.

Between the period 1884 and 1912, many special timber licences and pulpwood leases were issued. These differ mainly from the others in that they must be renewed annually. The ground rental for them is the same as on Leases.

In addition the leases and licences pay a 6c an acre annual protection tax and a timber royalty when it is cut. Furthermore the timber cut is not exportable in the unmanufactured state unless permission is obtained.

The Dominion Timber Berths were sold at auction for cash payment. They pay a land rental of \$32 an acre West of the Cascades and \$5 per acre East of the Cascades. A lower royalty is paid and the timber is not exportable previous to manufacture.

Lands in Indian Reserves are held in trust by the Dominion Government, and Land, Timber or other rights can only be secured from the Indian Agent. A permit system is used to dispose of the timber. A royalty of \$1 per thousand is charged and the timber can be exported in the unmanufactured state.

Therefore, the practice since 1887 has been to retain **land** in Government ownership and to sell the timber either by a Lease or Licence system, or an outright timber sale.

Crown granted forest land is mainly classed as either timber or wild land. Timber land briefly defined, is any land held by an owner in sufficient areas for forestry, logging, and investment purposes, and which lands contain milling timber to average extent for each 160 acres thereof, 8,000 FBM West of the Cascades and 5,000 East of the Cascades.

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Wild land very briefly is all land of five acres or more that is not classed as Coal, Farm, Forest, Improved, Timber or Tree Farm Land.

These lands are assessed under Section 30 and 33B of the Taxation Act. Section 30 states that timber and wild land shall be assessed at their actual value. The general taxation rate is $1\frac{1}{2}\%$ and 3% respectively and these lands are also subject to a varying school tax rate of 1% to $1\frac{1}{2}\%$. Therefore, the total tax rate for timberland approximates $2\frac{1}{2}\%$ and for wild land approximates $4\frac{1}{2}\%$ of the assessed value.

Mr. Chief Justice Sloan in his Report on "The Forest Resources of British Columbia" recommended that lands in Management Licences pay an annual rental of 1c per acre plus a forest protection tax and a $12\frac{1}{2}\%$ yield tax of prevailing stumpage values when the timber is cut. This recommendation was implemented in 1947 except that a stumpage inclusive of royalty amounting to 16% of the appraised value on Crown lands not held under other tenure is payable to the Crown; or such stumpage inclusive of royalty as may be appraised by the Forest Service.

As the Taxation Act was originally framed to correspond with the Forest Land policy, it was inevitable that changes were necessary in the assessment procedure and taxation of lands dedicated to the growing of future crops. The amendment to the Taxation Act of 1951 brought about the new classification of "Tree Farm Land."

The Method of Tree Farm Appraisal

Tree Farm Land is valued in accordance with the annual or periodic crop obtained from the growth capacity of the site. This valuation method contrasts sharply with the annual valuation of lands classed as Timberland and Wild land which is based on the standing inventory of trees and site characteristics as of the date of Inspection.

General Description of the Tree Farm to be Assessed

Area: 10,000 acres.

Composition: 2,000 acres of mature timber averaging 4,000 cu. ft. per acre and 8,000 acres of second growth of average site class 110, with age classes from 0 to 80 years.

Present allowable cut using the area allotment

check method: 500,000 cu. ft.

Anticipated annual cut 63 years hence: 800,000 cu. ft.

Allowable Forestry Costs:

Annual carrying charge—fire protection tax:.....	\$ 600.00
Annual operating charge totalling \$950 over 20 years:.....	47.50
Maintaining road access, including spraying, grading, culverts and bridges:.....	621.66
Fire suppression:	2,520.00
Administration:	1,850.00
Reforestation:	1,000.00

Total Forestry Costs:.....	\$ 6,639.16
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Tree Farm Assessment Procedure:

- (a) Value of present allowable cut of 500,000 cu. ft. at
 \$4.50 per hundred cu. ft. \$ 22,500.00
 Total forest management costs: 6,639.16
 Net return from present cut: \$ 15,860.84
- (b) Present value of anticipated cut when the maximum
 allowable cut is reached 63 years hence. Difference be-
 tween maximum allowable cut of 800,000 cu. ft. and
 present cut of 500,000 cu. ft.—300,000 cu. ft. valued
 at \$4.50 per hundred cu. ft. \$ 13,500.00
 The present worth of \$13,500 at 4% compound interest
 is $13,500 \times .0845$ 1,140.75
- (c) The assessed value is the sum of the value of the annual
 present cut (\$15,860.84) plus the value of the present
 worth of anticipated future annual cut in 63 years
 (\$1,140.75) capitalized at 12% 141,679.91
 This 12% capitalization rate is determined by allowing
 4% for the risk free investment of money, 6% for the
 risk factor and 2% for taxes.
- (d) Property taxes under a tree farm tax class:
 Tree farm land rate of 1% \$1,416.79
 School tax rate of $1\frac{1}{4}\%$ 1,770.98
 Tax for hundred cu. ft. of annual cut—
 \$3,187.77 divided by 500,000 cu. ft.—**63.75 cents**, this
 is 14% of the stumpage value used.
 Tax per acre—32c.
 14% of Stumpage Value used.

\$ 3,187.77

In summary of the Tree-Farm assessment procedure, the advantages to be obtained are as follows:

1. First and foremost, the annual or periodic crop obtainable from the growth capacity of the site is the basis for assessment, rather than the actual present value of the timber inventory and the land.
2. The general tax rates for tree farm land is 1% rather than $1\frac{1}{2}\%$ for timber and 3% for wild land.
3. All reasonable forestry costs are allowed; royalty where payable is deducted from the gross stumpage price.
4. There is a reasonable opportunity for private land owners to practice tree farming and make a fair return on their investment while making an equitable tax contribution for general government services.

Lands Classed as Forest Lands

In 1953 the Taxation Act was amended to levy a 1% tax on the assessed value of pulp licences, leases and berths. No school tax is levied upon them.

In order to appraise these 3,100 leases, licences and berths that cover approximately 2,500,000 acres, it was necessary to obtain a complete report for each assessment. I might state here that on the whole the registered holders of these properties co-operated with the Department of Finance in an admirable manner. In the period of four months, over three thousand returns were completed, giving a timber cruise, accompanied by a cruise map and any pertinent data relating to the logging conditions. The timber appraisal department tried to simplify the return forms as much as possible.

The approach to valuations on Forest Land and Timber Land is essentially the same except that there is no value placed on the bare land included in a Timber Lease, Licence or Berth. Royalty is deducted where applicable.

The ledger sheet for each assessment shows a summary of the various factors relating to the value of the holding. These are grouped in the four major classes of Favorable, Average, Difficult and Inoperable.

By using the weighted average bid prices made in each forest district for the twelve-month period prior to the assessment and by subtracting from these values the average royalty paid, a fair average market price is obtained for each species assessed.

60% of these prices is used as the average assessed value. An adjustment weighting of 50c from the basic prices of 50c is given for each of the other three major factors. These factors take into consideration such features as topography, accessibility and logging conditions. For the Favorable Class 50c is added to the average, for the Difficult Class 50c is subtracted and for the Inoperable Class a \$1.00 reduction is applied.

The use of this system has enabled the Department to support its valuation as reasonable. The valuation procedure was standard for each of the five Forest Districts. I feel the main reason why there were few appeals was that the majority of owners were given an opportunity to discuss the assessment with the Timberland Appraiser prior to receiving his actual assessment notice.

In appraisal of land bearing immature timber that is not classed as Tree Farm Land, the following factors are considered in arriving at fair market value:

- (1) Forest Land Quality.
- (2) Accessibility and Topography.
- (3) The risk of tenure—that is the younger the stand the greater the allowance for risk.
- (4) The age and density of the timber types.

A chart of values is prepared for each assessment district, based on the above factors and the cordwood value of the trees present. These values are substantiated from the prices paid for cordwood and by representative sales of similar types of properties shown on transfers recorded in the land registry.

With the use of air photography and ground inspection crews, an inventory of the lands bearing immature timber is made. In cases where the assess-

ment increases considerably as a result of the inventory, the assessed owner is invited to discuss the assessment with the Assessor and Timberland Appraiser.

In conclusion I would like to state that I believe that the present legislation providing reduced assessed values on Tree Farms and privately owned lands is an improvement, although imperfect. The system of appraisal of Tree Farms will undergo improvement as more experience is gained.

My department welcomes any reasonable suggestions from industry and foresters to improve this appraisal method.