Two recent presentations opposing the effort to increase timber taxation have provided misleading information regarding timber tax issues. Oregon Forest & Industries Council shared a PowerPoint presentation at the April 8, 2021 House Ag & Natural Resources Committee hearing on HB2379, and it utilized information from an Ernst & Young study commissioned by OFIC. Ernst & Young presented their study to the Springfield Chamber of Commerce a week later. Confusing at best and distorted at worst, their presentations point to the need for a taskforce that has the time to really examine and question what is being said.

OFIC's *Oregon Forest Taxation*

In the legislative presentation *Oregon Forest Taxation*, OFIC alleged that timber is now a renewable crop, not deserving of a severance tax. We believe it is a business asset that should be taxed. While the press and advocates have used the term "severance tax," in fact it is a "privilege tax." Regardless of the name, timber is taxed in our neighboring states when cut, but it is not in Oregon. In fact, Christmas trees are taxed in Washington State, using the same Forest Excise Tax Return as all other trees. We don't care what the tax is called or whether the industry wants to call their products a crop. Diverting the question to one of terminology is just an effort to evade the issue of restoring a tax that has gone missing in Oregon: a tax on timber. Our property tax for forestland taxes the value of the land for growing trees, multiplied by the tax rate.[1] The value is the same for a given acre whether the land has just been harvested and is empty or has a stand of 100-year old trees. A tax implemented at harvest taxes the timber itself. Few other businesses have physical assets that are never taxed. It is generous to offer to tax this business asset only once every 30 to 100 years.

On the *Goal 4: Forestlands* slide, the implication is that our tax laws and land use laws are protecting Oregon forestlands, and are the reasons Oregon has lost less forestland than California and Washington as shown on the slide *Changes in Forestland Area.* The red box draws attention to the column comparing retained acres of forestland in 1907 to those in 2012 in Oregon vs California and Washington.

Neither of these baseline years make any sense; we wonder if they were just lazy and used the first years they found, or if they cherry picked those years. Oregon's stricter land use laws were adopted in 1973 while elimination of our robust severance tax was phased out over a number of years beginning in the early 1990's and eliminated totally by 2003. The years 1907 and 2012 bear no relationship to the years of our policy differences.

If Oregon's population had grown at the same rates as Washington's and California's between the years which they highlight (1907 to 2012), it's likely more of Oregon's forestland would be inside the urban growth boundaries and converted to housing, commercial and industrial development. Oregon's population in 2012 was 3.9 million. If we'd grown like California, our population in 2012 would have been 13 million, or like Washington we would have been at five million.[2]

The slide *How is the timber industry taxed?* uses one set of the numbers from page five of the Ernst & Young study, the totals for what they are calling the forest industry's tax burden. However, this includes logging and wood products manufacturing, not just forestland owners. The legislature is not proposing raising taxes on loggers, seedling nurseries, mills, plywood or wood flooring production, or manufactured homes. The legislative focus is on taxing trees when they are harvested. Thus, the taxes of the whole industry, from seedlings to flooring, bear no relationship to the issue at hand. Any comparison needs to be of the taxes on growing trees and severed timber, NAICS code 1131, not everything from NAICS codes 113 and 321.

Several of OFIC's slides deal with fire protection costs.

Oregon's private forestland owners do pay more directly for fire protection than in our neighboring states. However, in neighboring states, forestland owners' harvest taxes pay into the states' General Funds, which then fund firefighting. Here, that is barely true, the total of corporate and pass-through income taxes paid by landowners and loggers, according to Slide 5 of the E&Y report, is $4.9 million.[3] That's all that the Oregon General Fund receives, and the number includes all of NAICS code 113 rather than just 1131. Fire protection isn't paid for by the General Fund for other businesses, so why forestland businesses? We know of no situation where 50% of the fire protection budgets of a community or industry are paid by Oregon's General Fund as it is for private forestland owners' base fire protection.

The *Landowner contributions to fire are NOT stagnant* slide obscures the truth in two ways. First, the deceptive, suppressed-zero OFIC graph makes it appear that base fire costs have nearly tripled, when their data says they have risen, over 10 years, from ~$39M to nearly $57.5M. Did they adjust for inflation? If not, inflation alone would raise the cost from $39M to $45.6M. Second, it should be titled <u>*Taxpayer and Private*</u> *Landowner contributions to fire are NOT stagnant*. The General Fund, State & local lands and federal funds have paid 68% of the costs. The chart is for all ODF protected lands (private, state, local and federal lands). Adjusted for inflation the base fire costs were up about $15.7 million from 2013 to 2021.[3] But only $3.1 million of that is from private landowners whose landholdings are actually 77% of the ODF protected lands.[4]

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[1]Our property tax for forestland taxes the value of the land for growing trees with a range of land values from $9.83 to $743.70 per acre in Western Oregon and at $84.21 per acre in Eastern Oregon. The value is multiplied by the local tax rate for any particular piece of property.

[2] *Source of population growth data is Macrotrend.net*

[3] Source https://www.bls.gov/data/inflation_calculator.htm

[4] LFO document "Forestland Revenue Received Comparisons" which breaks out ODF protected acres and Emergency Fire Funding and Base Fire Protection Funding by source for three biennia.

Ernst & Young's *Tax contributions of Oregon's Forest Industry*

In their executive summary Ernst & Young provide a figure of $15.91 per acre of private forestland for total anticipated taxes, including fire assessments, were the Corporate Activity Tax (CAT) and Family Medical Leave (FML) enacted in 2019. The same per-acre analysis of their data without the CAT and FML for the total industry claim would be $13.93 per acre. But when we include just the Ernst & Young numbers for the Forestry & Logging NAICS 113 code, the comparable number is $8.64 per acre including fire assessments. But how much of that is attributable to NAICS codes 1132 and 1133 rather than just 1131?

The legislature is not talking about taxing loggers, mills or plywood manufacturers. The proposal is a return of the tax on timber to be paid by the landowner/timber purchaser at the time of harvest.

On page five, rather than using the property tax data provided by LRO[5] of $25.3 million, Ernst & Young estimated property taxes on unimproved land at $36.7 million. Further, a portion of the $16.4 million of Forest Products Harvest Tax is paid on timber coming from federal, state and local land which is responsible for about 22% of timber harvests[6] so the private sector share of that would be $12.8 million. This changes the total industry taxes without fire assessments from $59.3 million to $44.2 million. We must wait for the fire cost study to evaluate the $28.9 million claim for fire assessments from private landowners.

We can't guess what portions of their $4.9 million in corporate and individual income taxes is attributable to the NAICS codes 1132 & 1133 sectors, but suspect they were included to increase the income tax numbers. According to LRO's Basic Facts, 2021, total corporate taxes have averaged $745 million over the last five years, and LRO says total pass-through taxes averaged $104 million a year. The $4.9 million E&Y says the forestland and logging industry paid is but 0.6% of all income taxes. Meanwhile, all property taxes in 2019-20 were $7.2 billion. Timber's property taxes on unimproved land at $25.3 million or $36.7 million is just 4% or 5% of all property taxes paid.

Further, we note that in their effective tax rates data on pages six and seven, Ernst & Young includes manufacturing in the forest industry data, but in the agriculture data they do not include food processing. They are comparing apples and oranges. If food processing taxes were added, it is likely that both of these land-hungry industries would have higher taxes than most industries as they should, given their combined privately-owned land. Property taxes are their highest tax.

It makes far better sense to draw comparisons with our neighboring states and all the taxes they pay on privately-owned forestland, not all businesses in this state.

Comparing an industry that uses 17% of the landmass of the State to all other businesses in the State is a false comparison. And using 17% of the land mass, but paying something less than 0.6% of all income taxes and 0.4% to 0.5% of all property taxes in the State looks like a very good deal.

[5]See Jaime McGovern presentation 2.18.2021, slide 25 property taxes for forestland without improvements $25.3 million, not E&Y's estimate of $36.7 million. $25.3 million is less than 0.4% of all property taxes.