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Current Status and Trends in Timber Severance Tax Legislation in the South

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SUMMARY

Severance tax programs currently exist in eight States in the South. These laws have been enacted primarily to encourage better forest management and to provide revenues for a variety of forestry initiatives. In most States, either the severer or the primary processor of forest products is designated as the taxpayer. Severance tax rates are established as either: (1) a fixed amount per unit of measurement or (2) a percentage of the value of timber harvested. Severance tax receipts have increased across the South since 1987, a trend that will continue if anticipated demand for southern wood products is realized.

INTRODUCTION

Timber severance taxes are imposed when standing timber is cut and are levied in addition to property or yield taxes or both. The historical justification for these severance taxes has been twofold: to discourage undue or wasteful cutting of timber and to provide revenues for State forestry programs that promote sound forest management practices.

Comprehensive surveys of State harvest tax laws have been conducted periodically (Clements and others 1986, Forest Industries Committee on Timber Valuation and Taxation 1972–1984, Hickman 1982, USDA 1968). Most recently, Hickman (1989) reviewed severance tax legislation in the United States. The status of severance tax statutes in the Southern United States is updated, and key provisions of existing severance tax statutes are compared in the paper. Recent trends in severance tax collections and the future outlook for severance tax programs also are discussed.

Timber severance tax programs currently exist in 12 States across the country, including 8 in the South. The first severance tax law in the United States was enacted in Louisiana in 1922 followed by one in Arkansas in 1923. Between 1935 and 1948, there were six additional enactments in West Virginia, New Mexico, Mississippi, Alabama, Oregon, and Virginia. New legislation, replacing the earlier Louisiana law, was passed in 1935 and again in 1955. Mississippi also enacted a new statute in 1956. Little further activity occurred until 1977 when North Carolina initiated legislation, followed by South Carolina in 1981 and Arizona and Illinois in 1983. Most recently, in 1987, West Virginia replaced its 1935 enactment with a new law (Hickman 1989).

PRIMARY PROVISIONS

Three of the primary provisions of these laws are reviewed in this paper: (1) the party subject to taxation, (2) rates and methods of taxation, and (3) statutory guidelines for revenue distribution (table 1).

Party Subject to Taxation

Severance tax programs in three States—Louisiana, Mississippi, and West Virginia—designate persons severing timber for commercial purposes and/or purchasers of severed timber as the parties responsible for payment of the tax. In contrast, primary manufacturers of timber products or shippers (persons transporting unmanufactured products out of State) are designated as the taxpayers in Arkansas, North Carolina, South Carolina, and Virginia. Alabama's program is unique in that both parties are subject to the tax; the severer is subject to an initial severance tax, and the manufacturer or shipper pays an additional privilege tax (table 1). Although severers, manufacturers, and shippers are burdened with paying the tax initially, it has been argued that the tax is shifted back and is eventually borne by the timber growers, because prices for wood products are determined in national markets, which include timber from both severance and nonseverance tax States (Hickman 1989, Marquis 1949).

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Table 1.—*Current timber severance tax statutes in the Southern United States: key provisions, removal statistics, and reforestation accomplishments*

Program feature	State and year enacted*							
	AL 1945	AR 1947	LA 1955	MS 1956	NC 1977	SC 1981	VA 1948	WV 1987
Party subject to taxation								
Severer	X		X	X				X
Primary manufacturer	X	X			X	X	X	
Taxation method								
Fixed rate per unit of measurement	X	X		X	X	X	X	
Percentage of stumpage value			X					X
Utilization of revenues								
General funds of treasury			X					X
Other nonforest use			X	X				
Forestry incentive programs				X	X	X	X	
Other forest use	X	X						
1992 severance statistics								
Volume harvested								
Cords (thousand)	8,775	2,974	5,187	7,850	4,759	1,755	2,645	300
Board feet (million)†	1,492 (S) 395 (D)	1,464 (D)	1,464 (D)	1,753 (D) 414 (bm) 200	1,972 (I)	128 (S)	1,214 (I)	700 (D)
Incentive program accomplishment								
Number of landowners assisted				1,157	1,513	106	980	
Acreage site prepared and/or planted				57,108	38,441	5,500	21,147	
Acreage released				5,185	2	559	19,246	

* State laws are: Alabama (AL) Forest Products Severance Tax, Arkansas (AR) Natural Resources Severance Tax, Louisiana (LA) Forest Tax Law, Mississippi (MS) Timber Severance Tax, North Carolina (NC) Primary Forest Product Assessment, South Carolina (SC) Primary Forest Product Assessment, Virginia (VA) Forest Products Tax, West Virginia (WV) Severance Tax.

† Log rules: Doyle Rule (D), Scribner Rule (S), International Rule (I), board-foot measure (bm).

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Methods and Rates of Taxation

Severance tax rates are established as either a fixed amount per unit of measurement or as a percentage of the value of timber harvested (table 1). In either case, in most Southern States, the tax is calculated on a volume basis. However, in Arkansas the tax is based on weight; and in Alabama, an optional weight assessment, at the election of the taxpayer, was recently added to the program.

The fixed amount approach is used in Alabama, Arkansas, Mississippi, North Carolina, South Carolina, and Virginia. However, there is wide variation among these States in the product and species classification schemes that are used for assessment purposes. The number of product/rate classifications varies from 2 in Arkansas—i.e., pine lumber and all other lumber—to 17 separate classes in Alabama. The Virginia program is unique in two of its provisions. An optional annual flat tax may be elected by small manufacturers, and a lower tax rate schedule is initiated when general fund appropriations are less than anticipated severance tax receipts. In South Carolina, severance tax collections are also tied to general fund obligations and are suspended when receipts equal four times the amount appropriated by the General Assembly for the State forestry cost-share program.

In Louisiana and West Virginia, the percentage of value approach is used. However, the method of determining product value differs. The Louisiana program establishes two rates, 2.25 percent for sawtimber and 5.0 percent for all other products. Product values are determined annually by the Louisiana Forestry Commission and the Louisiana Tax Commission. Prior to 1994, four product classes were used—pine and hardwood sawtimber and pine and hardwood pulpwood. In 1994, the commissions created a separate product class for chip-n-saw, with a 2.25-percent tax rate. However, local governments in the State are concerned that the revenues returned to their parishes, as stipulated in the State legislation, could be less than they would have received under the four product class structure. The Police Jury Association of Louisiana has initiated legal actions and has also submitted a resolution to the State Legislature proposing a severance tax rate of 7.5 percent for all forest products, even though Louisiana already imposes the highest severance tax in the South. In West Virginia, a tax rate of 3.22 percent is assessed on the contract price of each timber sale, in contrast to the Louisiana method of using a predetermined value. Most of the Southern States' programs provide exemptions for landowners harvesting timber for domestic use from their own property.

Distribution of Severance Tax Revenues

In all Southern States with timber severance taxes—except Louisiana and West Virginia, severance tax revenues are reinvested to benefit the States' forest economies (table 1).

In Alabama, 85 percent of severance tax revenues are dedicated to forest protection, with the remainder allocated at the discretion of the Commissioner of Conservation and Natural Resources. The Arkansas statute dedicates all but 3 percent of tax revenues to the State's Forestry Fund, where distribution is determined by the Forestry Commission. In Mississippi, 80 percent of the tax collected is used to support the State forestry cost-share incentives program, and 20 percent is distributed to the counties where the timber was cut. The North and South Carolina programs dedicate all severance tax receipts to fund the State forestry cost-share incentive programs. In Virginia, the bulk of the receipts also go to fund the State forestry incentive program, with some funding used to support nursery operations, education, and forest protection.

The Louisiana program dedicates 25 percent of severance tax collections to the State's general fund and 75 percent to the parishes where the timber was harvested. In West Virginia, all severance tax receipts are obligated to the State's general fund.

Table 2.—*Severance tax receipts*—5-year trends*

State	1992 receipts	Increase from 1987
	Thousand dollars	*Percent*
Alabama	5,637	12.6
Arkansas	3,609	7.8
Louisiana	10,654	49.8
Mississippi	3,955	12.9
North Carolina	1,724	16.6
South Carolina†	400	0.0
Virginia	1,530	13.9
West Virginia	1,670	147.0

* Some receipts are for calendar year 1992 and some are for fiscal year 1992.

† Limit is $400,000 in severance tax unless general fund contribution to the State forestry cost-share program is increased.

TRENDS

Higher stumpage prices and greater harvest volumes have resulted in increased severance tax receipts across the South in recent years (table 2). Reduced harvest levels on public lands in the Pacific Northwest, demand for wood products to restore property damaged by Hurricane Andrew, a growing export market, and increased demands for hardwoods have been important factors contributing to this trend. In addition, improved enforcement of the severance tax law has significantly increased revenues in at least one State. Recent legislation enacted in West Virginia that requires notification of harvest and licensing of timber operators has had a dramatic effect on tax collections (table 2). Lax enforcement of the statute was exacerbated by the fact that many sales were made to out-of-State buyers. Since passage of the 1992 law, the number of companies or operators reporting timber harvests has grown from about 800 to over 2,000.[1]

Severance tax collections in 1992 ranged from $400,000 in South Carolina to more than $10.5 million in Louisiana. With the exception of South Carolina, where severance tax receipts are limited by statute, increases in collections over 1987 figures reported by Hickman (1989) ranged from about 8 percent in Arkansas to more than 145 percent in West Virginia (table 2).

CONCLUSIONS

Severance tax receipts in the South are likely to continue to climb through the year 2010 as a result of rising stumpage prices and increased harvests. However, a combination of increases in supplies from maturing pine plantations in the South and from the recycling of paper products is anticipated to moderate prices somewhat after 2010 through the year 2040. Nonetheless, southern stumpage prices are projected to be double their 1990 level by 2040 (Kaiser 1994).

Continued improvement in reporting and collection procedures, as well as increased enforcement of severance tax programs, may further enhance receipts. In addition, comments from officials involved in administering severance tax programs where complex administrative systems are being used indicate that revisions to simplify these programs may be forthcoming; these changes may also affect receipts.

In response to increased demand for southern wood products, there may be an expansion in the use of severance tax laws in nonseverance tax States to promote forest management. The use of severance tax revenues to fund forestry incentive programs has been an effective means of stimulating investments on nonindustrial private forest lands in a number of Southern States (table 1). Forest protection, education, and State tree nursery maintenance are also important functions funded through severance tax collections. Because the burden as well as the benefits of the tax can be directed to the forestry sector, incentive programs funded through severance tax receipts offer a politically attractive policy option to enhance forest management in the South.

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