

CHAPTER 3G

TIMBER YIELD TAX

HIGHLIGHTS

- Purpose State-levied tax on timber when harvested, in-lieu of the property tax on standing timber. Revenues returned to local governments.
- Tax Base "Immediate harvest value" of timber, by species and region, as established semiannually by the Board of Equalization (BOE).
- Tax Rate Set annually, based on average property tax values in timber counties. For 2002, the rate was 2.9% of the timber's value at the time of harvest.
- Revenue

2002-03	\$12.5 million*
2003-04	\$14.0 million*
2004-05 (est.)	\$14.5 million*

Allocated to counties based on location of harvest.
- Administration BOE

*Source: BOE

1. TAX OVERVIEW

Two different taxes are imposed on timber property: The **timber yield tax** and the **property tax on timberland**. The timber yield tax is a tax on the value of harvested timber. The property tax on timberland applies to the underlying property.

While the timber yield tax is a state tax, the taxation of timberland is part of the local property tax, which is administered by the county assessor. (See Chapter 4 of this Reference Book for more information on the property tax.)

In 1977, the property tax on standing timber was replaced by a state timber yield tax. The reasons for this change included the pressure the property tax placed on timber owners to harvest prematurely, the cash flow stress caused by annual property tax liabilities on timberland owners when no income was generated by the standing timber, and county concerns that their post-harvest property tax revenues would decline sharply.

2. TAX RATE

The timber yield tax rate is set annually by BOE, based on the countywide average property tax rate in 17 timber counties. The rate in recent years has been 2.9% of the "immediate harvest value" of the cut timber. Immediate harvest values are not actual sales prices of the timber, but are amounts established semiannually by BOE, by timber species and region based on analysis of market transactions.

3. REVENUE

Timber yield tax revenues are collected by the state. After state administrative costs are deducted, remaining revenues are returned to local agencies.

Timber yield taxes generated \$12.5 million in fiscal year (FY) 2002-03, \$14.0 million in FY 2003-04, and are expected to generate revenues of \$14.5 million in FY 2004-05.

Revenues are allocated to timber-producing counties in the same proportion that revenues are generated from each county by so-called "location of harvest". Within each county, revenues are also allocated on a proportional basis. However, cities, school districts, special districts, and county governments receive those funds based upon a "minimum revenue guarantee" which was determined during a three-year base period in the mid-1970s. Because timber yield revenues have decreased since the base period, the actual dollar amounts allowed may be less, but the proportional shares remain unchanged.

4. ADMINISTRATION

The timber yield tax is administered by BOE, which sets the timber harvest values semiannually, collects the tax from timber owners, and allocates revenues to local agencies pursuant to the formula in state law. The BOE is authorized to place a lien on the assets of individuals with an outstanding timber tax liability. The California Department of Forestry has minor administrative duties as well.

5. CODE

Revenue and Taxation Code Sections 38101-38908

Government Code Sections 27423, and Sections 51100-51155