

STF Option Choice

Decision Guide

I. Overview

With the creation of the Forestland Program and the STF Option, all landowners have been initially placed in the Forestland Program. Owners with from 10 to 4,999 acres may then apply for entry into the STF Option. Those choosing to “do nothing” will remain in the Forestland Program.

Deciding whether the Forestland Program or Small Tract Forestland (STF) Option is best for you may be as easy as answering the question — “Do I want to pay all of my forestland property tax annually or do I want to delay payment until I have money from harvesting timber?” You might want to do a more detailed financial analysis to determine which is best.

When evaluating their options, all owners should answer the question — “Will I be selling my property in the next ten years?” If “Yes,” then you will probably best be served by the Forestland program.

Remember, if you choose the STF Option, your county assessor must receive your application by April 1, 2004.

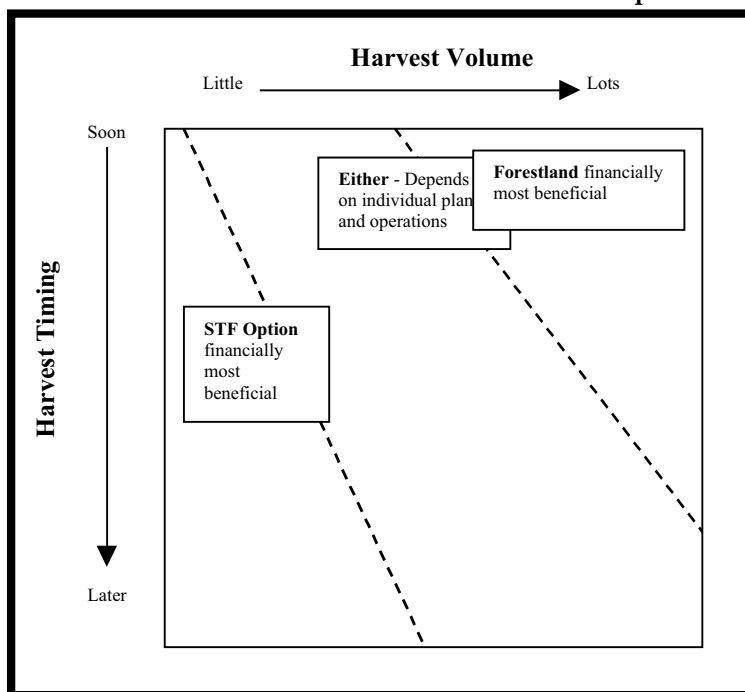
II. The STF Decision

General Approach

The chart below shows how the general relationship between harvest timing and harvest volume might influence your decision. Either the Forestland Program or Small Tract Forestland (STF) Option may be beneficial for landowners with situations depicted by the chart’s center region. It all depends on your future management plans and your property tax details.

Despite there being no “rules of thumb” regarding how much harvest volume is a “little” or “lots” or when “soon” and “later” is, this chart may be sufficient to help some landowners reach a decision. Some may know that they will harvest minor amounts of volume and that harvesting will be 25 years from now. They could be clearly guided into the STF Option. Others may know that they’ll be harvesting considerable volume in the next year or two. They’ll be guided to the Forestland Program.

Timing is critical when harvesting anything less than a considerable volume. Harvest



volume is critical almost regardless of timing. Owners with situations outside these rough parameters will want to use the more Analytical Approach described below.

Analytical Approach

The analytical approach involves some financial analysis that depends on (1) the timber available for harvest, (2) the planned harvest timing, and (3) information about how your property is currently taxed. You must decide about harvest volume and timing. Your county assessor can help you with information about your property's tax rate(s) and acres by forestland productivity class. The forestland productivity class is a measure of your land's capacity to grow timber and sets the value used for the tax calculation.

Two tools are available for using this information to make a financial analysis. The Oregon Department of Revenue website provides a formula for a Break-even Analysis and a Landowner Model for a more complex Spreadsheet Analysis. Both tools plus more information are available at:

www.dor.state.or.us/timber.html

Break-even Analysis

The Break-even (B/E) formula is designed for owners who harvest similar volumes of timber each year. The formula provides a quick calculation for determining a point where the tax paid under the Forestland Program equals the tax paid under the STF Option. If you plan to harvest more volume than the amount calculated by this formula, then the Forestland Program is most beneficial. If you plan to harvest less volume than the amount calculated by this formula, then the STF Option is most beneficial.

The B/E formula is shown below. Assuming that \$600 of total property tax is deferred annually and using the 2004 Severance Tax rates of \$3.89/MBF (Western Oregon) and \$3.03/MBF (Eastern Oregon), we calculate the B/E volume for both situations.

$$\frac{\text{Property tax deferred annually (\$)}}{\text{Severance Tax Rate (\$/MBF)}} = \text{Annual Break-Even Volume (MBF)}$$

Western Oregon \$600 / \$3.89 = 154 MBF
Eastern Oregon \$600 / \$3.03 = 198 MBF

We would conclude that:

- If harvesting more than 154 (198) MBF/year → choose FORESTLAND Program
- If harvesting less than 154 (198) MBF/year → choose STF Option

The only assumption needed to make the B/E formula work is that you are harvesting the same amount annually. Most forestland owners don't do this. As a first approximation, however, this approach is relatively safe if you plan to harvest within 5 years. With these examples, that would mean harvesting 5 times the annual volume [770 (990) MBF] during the 5-year period.

Spreadsheet Analysis

The Landowner Model is a Microsoft Excel spreadsheet using information about your property taxes and harvest plans to contrast the Forestland Program and the STF Option. You may download it from the Department of Revenue website shown above. If you do

not have Microsoft Excel, please contact your OSU Extension Forester, ODF Stewardship Forester, or the Department of Revenue timber tax staff for assistance.

The spreadsheet shows how different harvest scenarios will affect the amount of tax paid over time. Whether you harvest similar volumes of timber annually, every five years or every ten years—or you harvest timber randomly through the years—the spreadsheet will show the tax difference. The Landowner Model will, for example, allow you to perform analyses like the following for both Western and Eastern Oregon scenarios:

Examples:

Scenario 1 - Property owner owns 50 acres of FB forestland in Clackamas County and harvests 200 MBF in year 3. Amounts shown reflect years 1 – 5.

Acres Owned	Average Annual Property Tax as FORESTLAND	Average Annual Property Tax as STF OPTION	Annual Property Tax Difference
50	\$195.22	\$38.76	\$156.46

From the table above, when looking at the property taxes alone, the owner would pay an average of \$156.46 per year **more** over the first 5 years under the Forestland Program.

As shown in the table below, if we the add in the amount of Severance Tax paid under the STF Option and look at the total amounts paid over the 5 years, it is obvious that the Forestland Program is the better choice, but only by a little. Slightly decreasing the volume harvested would lower the Severance Tax and the Property + Severance Tax total and, depending on exact amount harvested, could make the STF Option then the better choice.

Acres Owned	Total Property Tax as FORESTLAND	Total Property + Severance Tax as STF	Total Property Tax as STF	Total Severance Tax as STF
50	\$976.11	\$1,019.16	\$193.78	\$825.38

Scenario 2 - Property owner owns 50 acres of forestland in Eastern Oregon and harvests 30 MBF in year 3. Amounts shown reflect years 1 – 5.

Acres Owned	Annual Property Tax as FORESTLAND	Annual Property Tax as STF OPTION	Annual Property Tax Difference
50	\$27.89	\$5.31	\$22.58

Acres Owned	Total Property Tax as FORESTLAND	Total Property + Severance Tax as STF	Total Property Tax as STF	Total Severance Tax as STF
50	\$139.44	\$122.98	\$26.54	\$96.44

Here, the STF Option is clearly the better choice, but again not by much. Minor changes in either harvest volume or timing could alter the decision, thus illustrating the importance of knowing both factors.

III. Summary

Several factors influence whether you should remain in the Forestland Program or elect the STF Option. We have used the Landowner Model spreadsheet to develop the table below. This table shows some general conclusions about choosing the STF Option.

	Greater Tax Savings With STF	Less Tax Savings With STF
Productivity Class - Western Oregon only	High Productivity ----->	Low Productivity
Property Tax Rate	Higher Tax Rate ----->	Lower Tax Rate
Management Intensity	Lower Tbr Mgmt Intensity ----->	Higher Tbr Mgmt Intensity
Rotation Age	Shorter Rotation Age --->	Longer Rotation Age
Opportunity Investment of Delayed Tax	Investment at High Rage ----->	No Investment
Harvest Timing	Delayed Harvest ----->	Harvest Now
Projected Length of Property Ownership	More than 10 years ----->	Immediate sale

From this table and all of the other information presented here, some advantages and disadvantages of electing the STF Option are clear. They are summarized below.

Advantages and Disadvantages of Electing the STF Option

STF Advantages

- Times property tax payments with cash flows from harvest.
- Pay annual property taxes based on 20 percent of the Forestland values.
- Simplified method of computing Severance Tax at harvest based on volume sold.
- Severance Tax only paid on sawmill grades and better.
- No Severance Tax on utility grades.
- Growth in future Severance Tax rates tied to growth in underlying property tax values.
- Severance Tax rate assumes average growth on an average stand in W. and E. Oregon.
- Can elect to place noncontiguous tax lots in different tax programs.
- New owners and transferees (within 30 days of transfer) can elect to remain in the STF Option without paying rollback of back taxes.
- Can elect into the STF Option at any time. Election is required by April 1 of any year to be effective for that year and all future

STF Disadvantages

- If substantial amounts of timber (above sustained yield amounts) are harvested early on, may pay more Severance Tax at harvest than would be due on an annual basis under the Forestland Program.
- Severance Tax rate assumes average growth on an average stand in W. and E. Oregon.
- Election is irrevocable. Once made, can only be changed by selling or transferring the property or changing to a non-forestry use.
- If property sold or transferred and the new owner does not elect to continue in the STF Option, additional taxes of up to 10 years of amounts deferred under the STF Option compared to the Forestland program.
- Must place all contiguous tax lots in this program.
- Severance Tax returns must be filed for harvests from STF lands.

years.