

THE TAXATION OF FOREST LANDS IN INDIANA.

H. W. ANDERSON.

The common argument against the preservation of woodlands by landowners in this and other states similarly situated is that the land in timber is lying idle and that the taxes are "eating it up." Many farmers today would have a forty or sixty-acre woodlot had they not felt that the taxes on this land was wasted money. It is true that woodlands are often assessed at much below their actual value because the income from them is small, but unless there is marketable timber on the land there is no annual return, as in the case of yearly crops such as wheat and corn.

Many business or professional men in our cities would like to own a piece of timber land where they could take their families for a few weeks in the summer or where they could go to hunt or camp. These men can afford to buy cheap land on which there is a growth of young timber which on account of its slow growth would not be of much actual value to the present owner, but would be a valuable piece of land in the future. Here again the problem of meeting the yearly taxes prevents the prospective buyer from purchasing the land. The present owner of this land will probably cut down the young growth, plow up the ground and try to raise a few nubbins on it.

Again there are lands in the southern part of the state which on account of their untillable character might be purchased cheaply and be utilized for growing timber on a commercial scale if the taxes were properly adjusted. These lands for the most part are now supporting a scrub growth of useless trees and underbrush.

In order to encourage the farmer and landowner to hold on to their woodlots or small forest lands and to encourage timber growing on a commercial scale there should be devised a system of taxation for such lands which would be fair to the other taxpayers of the state and yet not burden the woodlot owners with an unreasonable tax on land which is returning nothing to them at the present time. Many states, recognizing the un-

fairness of a general property tax on woodlands have so modified their taxation laws that this object may be accomplished. It is also true that the basis of taxation in one state may not apply in another, so that each state should make a careful study of the conditions within its bounds before modifying its taxation laws. For example, some of the eastern states have townships and counties in which the larger per cent. of the land is covered with forests. To exempt these from taxation for a period of years would work a hardship on the remaining taxpayers of the township or county. In this state, however, we have no such condition to meet.

A brief examination of the taxation laws pertaining to the forest lands in various states may be of interest. These facts were obtained from the "Report of the Special Commission on Taxation of Woodlands in Connecticut." This report was made in 1913, so that it contains the latest available data on the subject. This report shows that the following fourteen states have made special laws in regard to forest taxation: Alabama, Connecticut, Iowa, Maine, Massachusetts, Michigan, Nebraska, New Hampshire, New York, North Dakota, Rhode Island, Vermont, Washington and Wisconsin. Thirty-four states have no special legislation but tax woodland under the general property tax.

Eight of the fourteen states mentioned above have laws which, being similar in nature, may be grouped under one head. These provide for an exemption of all taxes for a period ranging in the different states from ten to thirty years. There are usually conditions attached to these exemptions requiring certain care of the forest or the planting of certain species. Washington exempts all fruit trees and forest trees artificially grown, while North Dakota grants a bounty on forest planting. Iowa has a tax on the basis of a valuation of one dollar per acre for a period of eight years. Here the owner must meet certain conditions as to area of reservation, number of species and care of trees.

The laws of Michigan are especially interesting and will be dealt with in detail. This state has a yield tax law. It provides for the reservation of a limited area. There must be at least 170 trees per acre. Grazing and the removal of not more than one-fifth in any one year are forbidden. Then there is levied a final tax of 5 per cent. of the valuation at the time of cutting. The main criticism of this law is the complicated machinery employed in the valuation and the collection of the taxes. No provision is made for the larger forest areas.

Many states have appointed special committees or commissions to investigate the subject of forest taxation and to recommend measures to the legislature. In Massachusetts, Ohio and New Hampshire constitutional amendments were necessary to permit state legislation along this line. These amendments were made and adopted by the vote of the people. This is of special interest to us since I shall presently show that a constitutional amendment is also necessary in this state.

Wherever commissions have been appointed to investigate this subject they have urged strongly the necessity of special legislation and have stated that the general property tax is not satisfactory in that it is unjust to the holder of woodland and gives uncertainty to forest investment.

The recommendations made by the commission in Connecticut are especially important in that their investigations were made public after a thorough study of the taxation laws of this and European countries. I shall quote them in full:

"The Commission recommends the enactment of a law which will include the following provisions:

"(1) Separate classification of forest lands for the purpose of taxation to be made on application of the owner, provided the value of the land alone does not exceed \$25 per acre. Certificate of classification to be issued by the state forester after due examination as to compliance with requirements of the law.

"(2) At time of classification, present true and actual value of land and standing timber to be determined separately, and valuation then established to be continued for a term of fifty years, with revaluations to be established at the end of that period and continued for a further term of fifty years.

"(3) When classified, natural forest land to be subject to tax at a rate not exceeding ten mills on both land and timber at the separate valuations established as indicated in (2), and a yield tax to be levied on the timber when cut, at a rate prescribed by law and varying with the time during which the land has been classified. Such land when cut clear subsequent to classification, and reforested either naturally or by planting, to be reclassified as young forest under (4) if application for such reclassification is made by the owner; otherwise the land to be taxed at the prescribed rate on the valuation already established for the whole property until end of the fifty-year period.

"(4) When classified, land planted with forest trees under specified conditions, or young forest not more than ten years old to be taxed annually at a rate not to exceed ten mills on a valuation of the land alone established as indicated in (2), and a yield tax of 10 per cent. to be levied on the value of the timber when cut."

The remaining recommendations apply only to conditions in Connecticut and need not be given here.

The system of taxation here recommended is based on sound forestry principles, and on the whole would be applicable to Indiana conditions. However this may be further simplified since the object of levying a small land tax in Connecticut is to prevent impoverishment of those townships where there are large areas of forest, a condition which does not exist in this state. A reasonable yield tax is all that is required in Indiana.

The ideal system of taxation is that used in many European countries, i. e., the income tax. In this connection I wish to quote from a recent article by Professor F. R. Fairchild of Yale University:

"There is a tendency among the progressive states of Europe toward agreement upon the general outline of tax system. As a rule the tax systems of European states are based primarily upon income, rather than upon property as in the United States. The general income tax is normally the basis of the system; the tax is usually progressive, the rate increasing with the size of the income. . . .

"Forests in Europe are ordinarily subject to state taxation and to local or communal taxation. As a rule forests are subject to one or more of three important taxes: (1) the income tax, (2) the ground tax, and (3) the property tax.

"The Ground Tax.—The ground tax is a yield tax. It is based upon the productivity of the soil and is measured by the yield which is normally to be expected in view of the general character of the soil and the use to which it is devoted. It is not based upon the actual income received from any particular piece of land. No account is taken of the peculiarities either in the management of the property or in the personal situation of the owner. Having determined the quality of the soil and the general character of the forest stand, it is assumed that the management is the same as normally prevails in that region. Also when the prevailing kind of wood and management have been decided upon, no account is taken of peculiarities in the condition of a particular forest. The owner who, by

careful management keeps his forest in unusually good condition pays no extra tax on account of the increased yield resulting. . . . In determining the money value of the yield, use is made of the average prices of timber and other forest products which have prevailed during a number of past years.

"On account of the difficulties inherent in the ground tax, this form of taxation has generally declined in importance. In only a few states today is the ground tax the principal method of taxing forests. In most progressive states the ground tax remains only as a supplementary tax in a system based primarily upon other methods of taxation.

"The Income Tax.—Most European states have as a more or less important part of their revenue system a general income tax. This is a tax upon incomes from certain specified sources which include pretty much all important sources of income. The income from forestry is subject to the income tax where such a tax exists. . . .

"The income tax, unlike the ground tax, is a personal tax. Instead of assuming a certain normal income, as is done under the ground tax, the income tax takes account of the actual income received by the individual in question from the particular source specified. . . .

"The rate of the income tax varies with the size of the income and is different in different states. It is seldom that the maximum rate exceeds 5 per cent."

We cannot hope to have these ideal systems of taxation for some time to come, so it is best to look toward the modification of our present system in order to make it more just and tolerable.

Our woodlands are a valuable asset to the state and it is our duty to see that everything is done to conserve them. An attempt has been made by the speaker to show that our present system of taxation is unjust toward the owners of woodland and should be changed. Unfortunately our constitution provides for a general property tax. Section 1, Article X, states that "The general assembly shall provide by law for a uniform and equal rate of assessment and taxation." It would, therefore, be necessary to have an amendment to our constitution to cover this matter. Other states have accomplished this and there seems no good reason why it cannot be done in this state.

However it is not the purpose of the speaker to go further in this matter than to urge the appointment of a commission by the Governor of

Indiana for the investigation of the conditions in this state and the recommendation of some plan whereby the woodlands of the state may be more justly taxed. As a scientific body interested in this question we should represent to the proper authorities our desire for the appointment of such a commission in this state.