



HB 1502A: Small Woodland Owners Tax Credit - Improved but not finished

Testimony for House Revenue – Jody Wisner – 3.1.2022

We have been closely following this timber issue since the news stories about the timber industry's successful campaign to undo its taxation regime broke 18 months ago; reading studies, providing presentations, and working with multiple partners.

When the Natural Resources and Wildfire Recovery Committee considered this bill on February 3rd, we outlined six areas of concern. Two of the most important issues have been addressed.

- 1) The definition of "stumpage value" is corrected.
- 2) The tax credits can no longer be transferred outside of the family.

Other issues remain unaddressed or have inconsistencies that you will want to address in future legislative sessions:

- A) There is no sunset for the small woodland tax credit. The bill and amendments continue to say in Section 7 that "Notwithstanding ORS 315.037 section 2 of this 2022 Act applies to all tax years beginning on or after January 1, 2023." Under ORS 315.037 tax credits are given a sunset after six years – but not this one. This is likely to be a costly provision; it should not be an exception. It needs the sideboard of a six-year sunset to make sure it is working for both the landowners and for the state. There are other state tax provisions that were not originally put under the sunset law which also need review. Perhaps one of you will take this issue on next session.
- B) When the state issues a tax credit for the value of the standing timber, the state is buying those trees for 50 years. Logically, any owner that violates that agreement should pay the same interest and penalties. The amendments made improvements for subsequent buyers of property with this 50 year deed restriction, but different kinds of owners are treated in different ways if they harvest the trees early. If the deal is broken by any party, the state should receive equal pay. Say it's 25 years later. If the state loses a now higher value stand of trees the state should be repaid with interest and penalties regardless of who cuts them down. All offending owners should be treated the same if they break the deal.
 - If the original owner breaks the 50-year agreement, it forfeits any unused tax credits and repays any tax credits it has used with interest, but without penalties.
 - If a subsequent buyer breaks the 50-year agreement, it repays the full value of all the tax credits plus interest and penalties from the date of purchase, but not for the years before. So if it purchases and harvests in the same year, neither it nor the original owner pays interest or penalties for any tax credits used prior to the purchase.

- If the estate of the owner breaks the 50-year agreement, it pays tax, interest and penalties, but only on any of the tax credits used against liabilities of the estate. It pays nothing for violating the agreement, or for the use of the tax credits by the original owner.

These provisions may look good if you are the deal breaker, but not if you are the state.

We hope that you will take up these issues next session.