

IOWA'S FOREST RESERVE LAW FINDINGS REPORT

Is it effective in promoting forestry in our state?

Introduction:

In 1906 the Iowa Legislature pass a landowner property tax incentive known as the Forest and Fruit Tree Reservation Act to “reduce or eliminate property taxes to induce landowners to hold their poorer lands in timber not only as a source of farm income but also for erosion control, watershed protection and game cover.” To enroll in the Forest and Fruit Tree Reservation Act (Chapter 427C of the Code of Iowa) or as it is known to most people the “Forest Reserve” and be exempt from property taxes the private forestland must be:

1. **At least 2 contiguous acres in size** and generally not less than 66 feet wide or a fruit tree reservation not less than 1 or more than 10 acres in total area,
2. Each forest reservation **shall not contain less than 200 growing trees**, on a fruit tree reservation at least 40 apple trees per acre and other fruit trees reservations at least 70 trees per acre’
3. Forest trees are defined as ash, black cherry, black walnut, butternut, catalpa, honeylocust, Norway and Carolina poplars, mulberry, the oaks, sugar maple, cottonwood, soft maple, osage orange, basswood, black locust, European larch, and other coniferous trees, and all other forest trees introduced in the state for experimental purposes,
4. In forest reservations which are artificial groves, willows, boxelders and other poplars shall be included when protecting borders not exceeding two rows in width around a forest reservation or when used as nurse trees not to exceed 100 on each acre.
5. **No cattle, mules, horses, sheep, goats or hogs are permitted on forest reservations,** and
6. Not more than 1/5 of the total number of trees in the forest reservation may be removed in any single year unless the trees die of natural causes. When the number of trees falls below 200 trees on each acre, the owner shall within one year restore the number of trees to not less than 200 trees per acre.
7. If any buildings are standing on an area selected as a forest reservation under this section or a fruit tree reservation under section 427C.7, one acre of that area shall be excluded from the tax exemption. However, the exclusion of that acre shall not affect the area's meeting the acreage requirement of Section 427C.2.

The Natural Resources Commission issued Administrative Rules Chapter 73 Forest and Fruit Tree Reservations (last up dated and effective 2-4-87) that established criteria for establishing and maintaining forest and fruit tree reservations and County assessors annual report on forest and fruit tree reservations to the department of natural resources:

- Designation – prerogative of the taxpayer if it meets 427C
- Area Designated – must meet minimum acreage requirements
- Size of reservation – continuous area means an area which is not separated by public roads or streets
- Fencing – not mandatory to fence – taxpayer responsibility to ensure livestock are not permitted
- Number of trees – must contain 200 trees on each acre and one year to replace trees if removed
- Economic gain – gain from raising fruit or forest trees means gain from the harvest from trees, including but not limited to: fruit, nuts, Christmas trees and greens, posts, poles, logs, fuelwood, pulpwood and tree sap. Please note – a forest reserve can not be used for leased hunting.

Private forestland owners interested in enrolling their forest or fruit trees into reservations must make application with the county assessor's office from January 1 - February 1 of the year for which they are claiming exemption. Once the application is approved, the area shall continue to receive tax exemption during each year that the area is maintained as a forest reservation without having the owner re-file. This tax exempt status is transferred with the property as long as it qualifies.

The county conservation board or the assessor's office in order to determine if it is still maintained as a forest or fruit tree reservation may inspect the reservation. If the area is not maintained or is used for economic gain other than a forest reserve for any of the exemption years and any of the 5 years following the exemption years, the assessor shall assess the property for taxation. Taxation will be at its fair market value as of January 1st of that year. In addition, the area shall be subject to a recapture tax for those years up to 5 years. The area shall not be subject to recapture tax if the owners have owned the area for more than 10 years. The county assessors shall keep a record of all forest and fruit tree reservations in the county and report to the DNR not later than June 15th of each year.

Forest Reserve Totals for 2003:

As of December 2003 the DNR reports that a total of **592, 755 acres on 39,341 parcels** were enrolled in forest reservations in all 99 Iowa counties. The total number of acres in forest reservations runs from 21.28 acres in Sioux county (NW Iowa) to 48,907.80 acres in Clayton County (NE IOWA). The number of acres in forest reservations accounts for 22% of the total number of acres of forestland in Iowa (2.7 million acres

Benefits of the Forest Reserve:

What benefits does the forest reserve have for Iowa? Since private forestland owners' control 92% of Iowa's forests, maintaining these lands in forests provides:

- ❑ **Habitat for game and non game species of wildlife** that depend upon forests for all or part of their life (deer, turkey, etc.), plus the economic activity for rural communities that cater to hunters and fishermen each year – over \$1.1 billion in 1999,
- ❑ **Watershed protection** for Iowa's stream and rivers, reducing sediment – Iowa's number one water pollutant, since 50% of Iowa's forests are on slopes greater than 10% and the other 50% are right along floodplain areas,
- ❑ **Economic development in terms of the timber that is harvested**, in 2000 that involved over \$14 million paid to landowners, and over \$1 billion in economic activity in harvesting and processing of the 89 million board feet of standing timber into wood products,
- ❑ **Air quality enhancement** as the standing and living trees absorb toxic carbon and other pollutants,
- ❑ **Outdoor recreation for property owners, neighbors, and visitors** to our state, as Fall color viewing in NE Iowa alone brings in over \$5.9 million to local economies.
- ❑ From a Wisconsin study in the Journal of Forest Economics of non timber values of forests such as clean water, clean air, wildlife habitat, etc., **it is estimated that a typical Midwestern forest provides \$33-\$40/acre/year in benefits to society.**

2003 Forest Reserve Survey Results:

In the Fall of 2002, supported by a grant from the USDA Forest Service and the DNR Forestry Bureau, the University of Northern Iowa Strategic Marketing Service began a survey of forest reserve owners to determine information about forest reserve owners, their residency, their land management intentions and investments. A total of 7,500 self-completion surveys were delivered to Forest Reserve Participants who own land in 98 of the 99 Iowa counties. Of this total, 1000 random responses were processed for a response rate of 13.3% with an accuracy of plus or minus 3.8%.

Results from the survey indicate that the vast majority of landowners enrolled in the Forest Reserve Program:

- Own between 1 and 100 acres of forest reservation,
- ½ have owned their forest reservations for more than 16 years,
- 85% live within 25 miles of their forest reserve, only 2.8% live out of state
- Major reasons for ownership are
 - Enjoy the Beauty and Scenery
 - To protect nature and biological diversity
 - Wildlife habitat
- 70% allow friends, neighbors to use their forest reserve for recreational purposes and approximately 2% charge a fee for that use,
- 70% of the forest reserve owners have greater than 10 acres of forestland,
- 77.7% of the owners reside in the county where their land is listed as a forest reserve,
- Only 22.5% have a written forest management plan prepared by a forester,
- Over 50% have completed some form of tree planting or timber stand improvement work,
- Over 55% report that they will do some form of tree planting or timber stand improvement work in the next 5 years,
- DNR Foresters were the source of most forestry information,
- Approximately 32% of forest reserve owners are members of the Iowa Farm Bureau, and
- 77.3% of forest reserve owners are between the age of 46 and 75

Forest Reserve Law – Historical Changes since 1906

The Forest and Fruit Tree Reservation program was established by the 31st General Assembly to encourage retention of poor lands into forests and wildlife habitat at a time of massive agricultural clearing. The Forest Reserve allows any person who establishes a forest or fruit tree reservation as provided in 427C.1-427C.13 (until 1991 was in Chapter 161) shall entitled to the tax exemption provided by law (441.22).

From 1907 until 1935, Forest Reservations had an appraised value of \$1/acre. Beginning in 1935, the appraised value was raised to \$4/acre. Beginning in 1974 the appraised value was \$14.82/acre. Beginning in 1986, the tax exemption for forest reservations was made to \$0/acre, and the economic gain allowed was more clearly defined to only relate to products of the tree (logs, firewood, seed, etc.) clearly not allowing leased hunting and other forms of paid recreational opportunities.

Other minor changes of the Forest Reserve involved the creation of a “recapture tax” and tightening up the requirement that if trees were removed that owners had one year to get back to the 200 trees per acre.

House File 2244 and 109 – requiring Iowa residency for all owners in order to qualify:

Introduced by Representative Chuck Gipp (R) first in the 2002 Legislative Session (HF 2244) and again during the 2003 Legislative Session (HF 109) would require that all owners of the property being claimed as a forest reservation declare residency in Iowa for purposes of income taxation. This requirement is the same as that for claiming the homestead tax credit. These bills apply to claims filed or on file on or after January 1, 2004.

At the request of the Legislative Services Bureau LSB 1516HH – a fiscal note describing impacts of HF 109 was prepared by the Iowa DNR stating based upon the survey results if the law required Iowa residency for all landowners it would impact sole owners and those of joint ownership with at least one landowners not being a resident – this would involve 5.5% of the state total forest reservation acres of

575,312 acres or 31,642.16 acres (2002 Forest Reserve total) would not longer receive the property tax exemption.

Using the total of 99 counties local county property taxes (estimated) based upon \$4/acre/year X 31,642.16 acres that would be back on the county tax rolls. This estimated property tax could range from \$2/acre/year to \$12/acre/year based upon the specific county and location/value of the property.

Net Effect = Increased revenue at a statewide basis of approximately \$126,569 for the 99 counties involved. No single county has a greater portion of out of state ownership than any others and no county would gain substantial savings from this eligibility requirement at this time. Assuming the % of out of state ownership in forest reservations are consistent all across the state, and the same in every county of 5.5% of the total, property tax revenues would range from \$4.48/year in Sioux County to \$10,480/year in Clayton County – with an average revenue of \$2,300/year for a typical Iowa county.

The impacts of the removing out of state owners does not appear from the UNI Survey to result in elimination of Iowa’s private forests nor would those receiving this tax exemption wholeheartedly support this proposal. In some cases, taxes resulting from elimination or the forest reservation exemption for out of state landowners could place financial hardship on some landowners to the extent that they may be force to sell their land or change the land use from forests. This is a concern especially for joint owners where one owner or more lives in Iowa and one or more live out of state. It is also a concern for out of state owners who wish to return to Iowa to live or wish to pass on their forests to the heirs while retired to a warmer climate.

Forest Tax Programs Nationwide Review:

The nation’s private forests are an important natural asset, encompassing more than 474 million acres – nearly two of every three acres of forestland in the United States. These lands are held by some 10 million owners, with 84% being small non industrial forest owners. The economic and ecological value of our nation’s private forests is significant, considering that they account for 80% of the timber harvested, 70% of the carbon sequestered and 86% of the habitat for all species listed as threatened and endangered (National Research Council, 1998). In Iowa, private forests control 92% of the state’s 2.6 million acres of forest.

Forest tax laws are used by all 50 states, but many are not exclusive to forested lands. There are five (5) major types of forest property tax programs:

- *Ad valorem* laws that tax forestland according to its fair market value (full or a percentage of). This is the second most common approach to forest taxation.
- *Current Use* programs determine the land’s taxable value according to its use in a forested condition, as opposed to its “highest and best use”. This is the most common approach to forest taxation.
- *Flat tax* programs levy a fixed annual tax per acre. Only 9 states use this simple approach and levy a fixed predetermined rate that varies from \$.50 to \$3 per acres per year.
- *Exemption* programs excuse forestland from property taxation altogether. Only 3 states use this approach: Iowa; Delaware; and Alaska.
- *Hybrids* of current use and ad valorem values are used to derive a taxable value for forested property. Used primarily in the south and tied to productivity of the forests – for example Georgia forestland taxable values are based upon 65% on current use and 35% on comparable market sales or productivity.
- Many states also assess “*additive tax*” in addition to an annual property tax – usual at the time of tree harvest (severance tax). Also known as yield or severance taxes are levied as a percentage of the value of the timber harvested usually 5-10%. Illinois uses an additive tax – “a severance tax” in addition to a farmland productivity tax and places the severance tax funds in a Forest Development Fund to fund cost-share incentive programs to reforestation and enhance private forests.

DNR Forestry Survey of County Assessors:

Each year, county assessors are required by Code of Iowa 427C.13 to keep a record of all forest and fruit tree reservations in their county and submit a report of the reservations to the DNR not later than June 15th of each year. Generally with several reminders, the DNR has a listing by county of the number of acres and number of parcels of forest reserve in each county.

During the Spring of 2003, an Email survey was conducted by the DNR of the county assessors asking them to give a ballpark figure or average “Tax/acre” and “Assessed Value per acre” of forest reserve lands in their county. A total of twenty-six county assessors indicated that the averaged appraised value of forest reserve land would be approximately \$401/acre – and thirty-three county assessors reported average tax of land now in the forest reserve would be \$7/acre.

There is quite a large disparity in average tax and assessed value across the state – much of it due to the fact of the amount of residential forest reserve value vs. rural or agricultural forest reserve value as reported by the assessors that responded. Since number of forest reserve acres is not uniform across the state, the annual tax value for forest reserve lands would range from \$24.60 for Lyon County (\$.50/acre) to \$177,214 for Clayton County (\$3.72/acre).

Forest Tax Programs What Should Iowa Consider:

Property taxation, like technical assistance and regulation are tools that can influence land use. For effective land use and retention of private forests and their benefit to Iowa, decision makers and citizens need to ask what are the reasons and goals for encouraging private forest land ownership.

Currently Iowa’s forests cover 5-6% of our land cover down from 17% at the time of settlement 150 years ago. Our forests are dominated by private ownership (92%) – and it is these private forests that provide the benefits of soil erosion control, carbon sequestration, water quality, wildlife habitat, timber resource for wood businesses and outdoor recreation/tourism opportunities. Our forests are faced with land use changes and fragmentation due to ever increasing land costs and the desire of citizens to live in the woods. Fragmented forests impact water quality and wildlife habitat values of native and neo tropical birds. In addition, ownership patterns are changing – as less of our forests are owned by farmers and more by absentee landowners. Retention of Iowa’s forests benefits all Iowans; either economically or environmentally – it is in Iowa’s favor to encourage forest retention for Iowa’s long-term well being.

There is a need for Iowa to help in determining an acceptable forestry tax theory which can be applied equitably and reasonably to forest landowners since forest ownership is a long-term investment and as such is vulnerable to many risks. If Iowa decides that its private forests are valuable to the economic and environmental good of the state, property taxation is a preferred method of land use management over regulation. The tax should not be excessive nor give an undue advantage to forestland owners, the tax burden should be comparable to other land uses and it should promote the optimum economic use of the land.

In order for Iowa’s forest taxation policy to be effective it should consider: (1) easy to administer and easy to collect; (2) revenue stability or a steady flow of income; (3) equitable tax burden is it fair to all tax payers – are we getting something in return; (4) fiscal neutrality does it impact optimal management of the resource; and (5) periodic evaluation for efficiency and effectiveness.

The current Forest Reserve program is relatively easy to administer, administrative costs are minimal at the county or state levels. But our current forest reserve does not provide any revenue for

local governments. It is equitable in that any forestland owner can apply if they meet the minimum specifications. It is not equitable in that qualifying forest lands pay no tax – but in exchange of no tax – Iowans are receiving environmental benefits valued at \$33-\$40/acre per year from access to hunt and fish to water quality and even Fall Colors. Over ½ of Iowa’s forest reserve landowners are improving their forests through tree planting and timber stand improvement from the UNI Survey of forest reserve landowners, taxation issues are a concern to forest landowners.

Forest Landowner Brain Storming Session results to date:

Three separate brain storming sessions were held on February 12, 2003 in Edgewood, Iowa and on July 10, 2003 in Postville with representatives of Northeast Iowa Forest Advisory Committee and on March 8, 2003 with the Board of Directors of the Iowa Woodland Owners Association in Marion, Iowa. In addition a survey of members of the Iowa Woodland Owners Association was conducted during the Summer of 2003. The intent of these brainstorming and sessions and survey were to review UNI Strategic Marketing Services Summary Report and Iowa Forest Reserve Program survey and to respond to a series of questions (see below) about the Forest Reserve Program:

1. Please list the benefits to the State of Iowa and its citizens that are a result of the Forest Reserve Program.
2. What weaknesses or problems does the Forest Reserve Program bring to mind?
3. What opportunities are there for improving the Forest Reserve Program?
4. What can be done to encourage more private forest landowners to practice forestry that will benefit Iowa and its citizens?

Brain storming responses from the Northeast Iowa Forest Advisory Committee and the Iowa Woodland Owners Association Board of Directors:

Benefits of the forest reserve to Iowa and its citizens included:

- Legacy to pass along to their heirs
- Industry support
- Critical wildlife habitat
- Private investment in the forest
- Incentive to get cattle out of the forest
- Cleaner air
- More forests
- Don’t release fertilizers
- Source of high quality and volume of wood for industry
- Improved Water quality
- Increased property values
- Keeps marginal farmland out of production
- Family legacy – passing to heirs
- Climate benefits
- Increased property values of adjoining lands
- More private forest ownership reduces pressures on state lands
- Greater soil erosion control
- Hunting allowed bringing in revenue for surrounding communities
- Slows urban sprawl
- Aesthetics and tourism – Fall Colors
- Enhanced wildlife habitat
- Fewer livestock grazed timberland
- Less premature harvesting of timber
- Opportunities for outdoor recreation and hunting
- Timber revenue for landowner and wood industry
- Improved quality timber harvesting to pay income taxes
- Being able to hold on to family farms and forestland
- Incentive for forest landowners to retain their forests without payment
- Allows people to manage their timber for economic gain
- Helps provide a timber base for wood industry businesses
- Outdoor recreation opportunities for public on private land when public are responsible and private owners give permission.

Weaknesses and problems with the forest reserve:

- Developers in cities take advantage
- Speculators issues
- Vague rules and enforcement difficult for assessors
- Out of county/out of state ownership
- Misconceptions on allowing leased hunting or public access
- Less tax revenue for counties meaning less services
- Lower taxes on forest reserve and higher taxes on farm ground
- No forestry plan or improvement required
- Lack of incentives for forest reserve owners to be educated about what makes a healthy and sustainable forest
- Fence/boundary disputes
- Limits leased hunting economic opportunities
- Penalize

Opportunities for improving the forest reserve:

- Keep it simple and straight forward
- Better information and education opportunities for encouraging sustainable forest management
- Set a higher minimum acreage requirement (ex. 5-10 acres)
- Possibly extend the recapture tax to 10 years
- Maximum acreage of 1000 acres
- Require a state forester approved forest management plan
- Enforce the no leased hunting as an unacceptable economic gain
- A low flat tax or appraised value for forests that is affordable
- Use an application fee to pay for administration
- Use flat tax rate per acre – with a part going to counties to off set costs and another part going to a statewide forestry fund to promote improved forest management.
- Many people who own forest reserve lands pay ample amounts of taxes on their remaining non forest lands
- Consider a severance tax on timber removed from forest reserve.
- Raise minimum acres from 2 to 5 acres to eliminate house lot issues
- Require that trees are established (2-5 years) before being eligible– not just planted to count towards the 200 trees per acre.
- Consider revisiting the appraised value of forests from \$0 to another low dollar amount.
- Mandatory training or attendance at forestry field days of forest reserve landowners.
- Sliding tax scale for 2-10 acres and 10+ acres plus

What can be done to encourage more private forest landowners to practice forestry that will benefit Iowa and its citizens?

- Require contact with a professional forester once every 5 years to stay eligible in the forest reserve
- Tie something when people sign up with different farm programs to make contact with a forester
- Need more foresters to provide assistance
- Control deer
- Require a forest management plan approved by the state forester and review/inspect forest every 5-10 years.
- Tie something with cost-share incentives
- Expand Master Woodland Owner Training programs

- Mandatory attendance of forest reserve landowners at forestry field days
- Write columns for news papers, farm bureau spokesman
- Develop a brochure on the value of Iowa's private forests

Overall Recommendations from Forest Landowners and DNR Field Foresters:

- **Keep the program simple**
 - a. A few uniform requirements – similar to existing program
 - b. Uniform filing dates
 - c. Uniform determination of eligibility and enforcement
 - d. Eliminate the practice of the county assessor lowering the tax on the reserve and raising it up correspondingly on non-forest lands.
- **Keep the program as is**
 - a. Private forests provide multiple benefits \$33-40/acre/year to society and landowners receive no incentive payments for this long term investment.
 - b. Let all landowners be eligible – whether in-state or out-of state owners, benefits received by Iowa are the same for the forest no matter who owns them
 - c. Woodland owners pay ample taxes on their non forest lands.
- **Forest Management Plan requirement could negatively impact forestry assistance programs and private property rights**
 - a. Do not desire the DNR foresters to become “tax police” they should be outreaching to others to get work done on the ground.
 - b. There would need to be administrative costs.
 - c. Would require a grandfather clause or a 10 year timeframe just to get current owners up to date.
 - d. Would you need to just have a forestry plan or would you have to implement such a plan – if so who monitors.
- **Raise requirement from current 2 acres to 5 acres/10 acres.**
 - a. This would eliminate high tax valued residential pieces from being in the program – only larger – solid forested pieces would qualify.
 - b. Would limit issues for county assessors
 - c. Would require a change in the Code of Iowa to raise the minimum acreage
- **Other possible refinements:**
 - a. Require that the 200 trees per acre minimum be established (2-5 years) – not just planted to be eligible.
 - b. Annual application fee or flat tax payable with part going to the counties to offset their costs and other part going to a statewide forestry fund to promote improved forestry.
 - c. Landowner be responsible for submitting annual accomplishment report in order to qualify
- **Propose a working group of private forestland owners, county assessors and DNR forestry to report to Iowa Legislator in 2005 a forest reserve report that:**
 - a. Clearly define the need for an incentive based property tax,
 - b. Establish clearly defined goals that are measurable and achievable within staffing and budget limitations,
 - c. Recommend a taxing option that will be most effective in achieving the intended goals,
 - d. Design a taxing mechanism that is workable for all stakeholders and provides sufficient incentives to landowners to participate,
 - e. Tie the selected taxing method to other programs that will enhance overall effectiveness in addressing identified problems,
 - f. How to deal with existing forest reserve lands – should they be grandfathered in?,

- g.** Make landowners responsible for documentation and reporting,
- h.** Establish a system that will ensure continuous measurement of overall effectiveness and,
- i.** Ensure that periodic reviews will accommodate needed changes to the program on a consistent basis.

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