



“Current-Use” Assessment for Corporate Holdings?

In 1973, the General Assembly passed the N.C. Farmland Taxation Act, which allowed agricultural, horticultural, and forestry lands to be taxed at their “present-use” value rather than their “market” value. Under this law, land qualifying for current-use property tax assessment would generally be taxed at a lower tax rate than would land designated for a fair-market assessment. Market value is higher than current-use value in areas where farmland or timberland might be developed for urban uses. In some rural counties, however, current-use value is essentially the same as market value because of the absence of urban development. Theoretically, current-use value would never be higher than market value.

The law does not apply to land owned by publicly held corporations. In 1981, Sen. Jordan introduced Senate Bill 283 to “broaden the use value tax assessment classification for agricultural, horticultural, and forestland owned by corporations.” But the bill failed. In 1982, the forestry industry requested to be heard on the issue before the interim Property Tax Study Committee, chaired by Rep. Robert McAlister (D-Rockingham). As a result of those hearings, in 1983 Rep. McAlister introduced House Bill 262 (“Use-Value Appraisal Extended”) which would extend the current-use assessment law to

all publicly held corporate lands (i.e., not just forestry companies) used for forestry production. The McAlister bill does not affect agricultural or horticultural lands.

The Division of Forest Resources supports the forestry industry’s efforts to bring corporate lands under the current-use assessment law. At a legislative breakfast on January 26, 1983, State Forester Green put it this way: “Perhaps the most pressing [issue] is consideration of industry petition for the same present-use tax treatment as is applied to private woodland owners.... According to an independent study by a private consulting forester, insignificant changes would occur in tax burdens [within the counties] if this legislation were changed now. However, the longer [this proposed amendment] is delayed, the greater the shift in tax burden [to other taxpayers] will be.”

While not widely discussed in public, the bill has raised serious concerns among revenue experts, county commissioners, and close observers of the ad valorem tax system. These experts first question the methodology of the study on which Green bases his case regarding shifting tax burdens. “There is no source that could tell you all the land that would qualify for the assessment,” says Doug Holbrook, director of the N.C. Department of Revenue’s Ad

Valorem Tax Division. "I think the study has some deficiencies." Dr. D.F. Neuman, NCSU economist and co-author of an annual examination of use-value taxation, agrees with Holbrook. "I would question how fully the study enumerates all corporations that hold forestland. There is no [such] record." In addition to the methodological concerns, the degree of objectivity must be questioned. Daniel H. Gelbert, whose consulting forestry firm conducted this "independent study," as Green puts it, is a former president of the N.C. Forestry Association, the trade group spearheading the proposed change.

The N.C. Forestry Association defends the proposed amendment with the Gelbert study and by citing the situation in other states. "Of 43 states with some type of modified assessment program, North Carolina is the only state eliminating publicly held corporations in current-use tax treatment," says Gordon L. Rogers, current president of the association. William Siegel, head of the U.S. Forest Service's National Research Program in Forest Resources Law and Taxation, confirms that North Carolina is the exception (but says only 36 states have a current-use assessment statute for forestry). Siegel agrees that the N.C. law should be brought into line with those in the rest of the country. "Forestry is a long-term crop and doesn't have the annual payoff that agriculture has," says Siegel. "That's true for forests on corporate lands as well as individuals' [land]."

The potential loss in tax revenues to counties, however, troubles those opposed to the proposed change. And the methodology of the Gelbert study, as Holbrook and Neuman point out, may not fully measure the financial impact in the counties. In 1980, the Gelbert firm conducted a study of all 100 counties on the impact of including corporate agricultural, horticultural, and forestry holdings under the current-use assessment statute. In the 1982 study, however, an update of the 1980 report, the Gelbert firm used a sampling method, reviewing *only 25 counties and only forestry corporations' landholdings* (i.e., not all corporate lands). The author of the 1982 report, S. Robin Gelbert, contends that a sampling method provides an adequate means of estimating revenue losses under the proposed change in the law. "The results may be viewed as indicative of the impact of extending current-use eligibility to all classifications of publicly held corporations in North Carolina," Robin Gelbert writes in the conclusion.²⁵ Using this method of interpolation — from 25 counties to all 100 counties and from only forest corporations' landholdings to all corporate lands — Gelbert estimated that the proposed amendment would cost all 100 counties

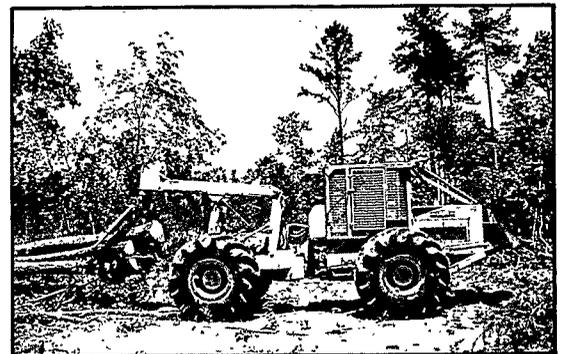
a total of some \$360,000 in deferred taxes.

County leaders, as a rule, disagree with Green and the Gelbert study regarding the tax burden. "We oppose extending the current law to publicly held corporations," says D.F. "Butch" Gunnells, staff counsel for the N.C. Association of County Commissioners. "It would shift the tax burden to all other property taxpayers not covered under the exemption." Karen Gottovi, chairperson of the New Hanover County Commissioners, expresses her objection in starker terms: "If it wouldn't change the tax base, why do they want it so much?"

Gottovi has particular cause for worry. This year, New Hanover is reappraising all of its property, a process which each county must undergo every eight years. When land values are reappraised, the county commissioners establish a schedule of taxation for market value and for current-use value. An owner of forestry, horticultural, or agricultural land must have a sound management plan — approved at the county level — to qualify for the current-use rate. But local tax assessors are not timber experts, and some, according to Holbrook, "let you get [a plan] as you go." Far more landowners apply for the current-use rate in a reappraisal year. "A major impetus [for landowners to choose current-use rates] has been the periodic revaluation which updates both use and market values for farmland in the county," write NCSU economist Neuman and his colleague, E.C. Pasour, in the most recent annual study of this tax program.²⁶

In 10 of the 15 counties that reappraised property in 1981, Neuman and Pasour found "dramatic increases" in participation: "Gaston, Greene, Richmond, and Swain counties, which had no participation in 1980, approved 892, 25, 170, and 500 tracts, respectively, in 1981." These tracts, the NCSU economists found, caused Gaston a potential loss of \$91,172 in tax revenue, Greene \$7,529, and Richmond \$12,510 (Swain data was not available). While these figures refer

Timber skidder.



Howard Muse

to assessments covering agricultural and horticultural lands, as well as forestry lands, they do show how potential losses on forestry-related assessments jump during a reappraisal year.

Neuman, Pasour, and two other NCSU researchers made a special study of the 1976 reappraisal in Wake and Wilson counties (again, for agricultural, horticultural, and forestry lands). Wilson approved only 30 tracts for current-use assessment, with a negligible change in its tax base. But in Wake County, where 4,059 applications were approved in 1976, "deferred taxes amounted to about \$994,000, or 3.9 percent of the total tax bill of the county (\$25.7 million)," the researchers determined. "Another way of interpreting the impact of the act on the tax base is that a tax rate 3.9 percent lower than the existing 78¢/\$100 would theoretically have been in effect without the 1973 Act in Wake County in 1976."²⁷ From 1974 (when the law began to be implemented) until 1981, Neuman

and Pasour have found that counties have a potential loss of some \$20 million in "deferred" taxes because of the N.C. Farmland Taxation Act.²⁸ Neuman says that without more study, he could not determine the level of future losses caused by the proposed amendment. The most recent Gelbert study, as explained above, puts the potential loss from the proposed amendment at \$360,000 per year.

The term "deferred" tax suggests another complication to the existing law, not to mention the McAlister proposal to extend the statute. If the use of the land changes any time during a three-year period, the county can require these "lost" taxes to be repaid. In other words, the "current-use" assessment functions as a deferred tax system. Each county must keep tabs on the tracts approved for current-use and must call in back taxes if the use of the land changes in three years. "The system is already unmanageable," says Ad Valorem Division Director Holbrook.

Terms of the Terrain: A Glossary of Forestry Programs and Agencies

Below is a list of major forestry organizations and programs. If named in the accompanying article, the chief officer of a group is included. A representative of each organization marked with an asterisk () sits on the Governor's Interagency Committee on Small Woodlots.*

FEDERAL

* **Agricultural Stabilization and Conservation Service (ASCS).** The agency of the U.S. Department of Agriculture (USDA) that administers specified commodity and related land-use programs designed for voluntary production adjustment, resource protection, and price, market, and farm income stabilization. In North Carolina, ASCS has offices in every county and a state office in Raleigh. County ASCS agents oversee programs ranging from the tobacco support system to the *Forestry Incentives Program (FIP, see below).*

Forestry Incentives Program (FIP) Begun in 1973, this program provides partial costs to private landowners for tree planting and timber stand improvement. In North Carolina it is administered by the *ASCS* (see above), in

conjunction with the *Division of Forest Resources* (see below).

* **Soil Conservation Service.** USDA agency with responsibility for national soil and water conservation programs in cooperation with private interests and other governmental agencies. County agents provide technical assistance to farmers, tree growers, and other land users.

U.S. Forest Service. Within USDA, the national agency with lead responsibility for protecting and improving forests. Manages the National Forest system.

STATE

* **Agricultural Extension Service.** Statewide agricultural education office funded through federal, state, and county resources. Serves as a link between research universities and individuals, primarily farmers. Provides services in agriculture, family living (home extension), youth development (4-H), and community resource development. Headquarters for this 100-county network are at N.C. State University and N.C. A&T State University. See *Extension Forest Resources* (below).

* **Division of Forest Resources.** Agency of the Department of Natural Resources and Community Development (NRCD) also known as the *N.C. Forest Service*. Formed initially to fight forest fires, the division now works to control forest hazards of all sorts and to manage forests as an economic resource. Maintains field offices in 97

"The [change] would make it extremely difficult to administer."

The issue grows even more complex if one considers the original intent of the 1973 statute: to help farmers who hold land near developing areas so as to avoid having to pay escalating property taxes caused by commercial growth. Gunnells and Holbrook both think this rationale doesn't match how the law has worked in its ten-year history. "The effect of the statute is to apply use-value to all owners of rural land," says Holbrook. Gunnells takes the argument one step further: "Commissioners politically are forced to tax all rural lands under the current-use schedule, particularly in revaluation years."

The proposed change in the current-use assessment law might help to keep some forest lands in their current use rather than having them developed for urban uses — the most benign way to view HB 262. Green points to land between Raleigh and Durham as an area that

would benefit from the change. But the proposal appears to have numerous flaws — both of a technical and of a "tax-break-for-special-interests" variety. "This [HB 262] would create a grave inequity between property classes [agricultural, horticultural, urban, etc.]," the chairman of the Bertie County commissioners, C.H. Edwards, and the county's tax supervisor, Jack Williford, wrote to Rep. McAlister on March 18, 1983. The Bertie County letter goes on to say that the change would "undermine the intent of the original use-value statute presently being utilized." Williford also opposes the bill because of the "dictatorial manner in which the bill spells out the appraisal technique, which ties an appraiser's hand" (see page 3 of the bill, lines 1-5 regarding "site index" definition). Still Holbrook sums up the most severe impact of the proposed change: "It would reduce the [county tax] base so that the rate would have to increase to offset that reduction."

counties. Division director/state forester is H. J. "Boe" Green.

* **Division of Soil and Water Conservation.** Agency of NRCD which promotes natural resources conservation. It works to decrease soil erosion and other agricultural sources of water pollution, to complete a soil survey in each county, and to plan and implement watershed projects. The division works through 94 local soil and water conservation districts in the state.

* **Extension Forest Resources.** An educational program within the Agricultural Extension Service and a department in N.C. State University's School of Forest Resources. Maintains agents in all 100 N.C. counties. Specialist in-charge is Mike Levi.

Farmland Taxation Act. Law passed in 1973 to allow agricultural, horticultural, and forestry lands owned by individuals or family corporations to be taxed at a "current-use assessment" rather than a market-value rate.

Forest Development Act. Program enacted in 1977 as a cost-sharing effort for improvement of timberland. Similar to *Forestry Incentives Program* (see above).

Governor's Advisory Task Force on Small Woodlot Management. Ad hoc task force established by Gov. James B. Hunt, Jr. in 1978. Made recommendations for better marketing research, technology, and owner education and assistance.

Governor's Interagency Committee on Small Woodlots. Committee formed in 1978 to

coordinate management of small forest holdings. Includes representatives from federal and state forestry and agricultural organizations. Serves as a model for similar interagency committees in about 90 counties. Chairman is State Forester H. J. Green.

* **N.C. Forest Service.** See *Division of Forest Resources* above.

* **N.C. State University School of Forest Resources.** One of two major schools of forestry in the state (the other is at Duke). Dean is Eric Ellwood. The NCSU Forestry Department, headed by Arthur W. Cooper, is in this school, as is the *Extension Forest Resources* department (see above).

* **Wildlife Resources Commission.** Group formed to manage the state's wildlife resources and to administer the laws relating to game, fish, and other wildlife.

OTHER

N.C. Forestry Association. State trade group of the forestry industry formed in 1911. Has 1600 members, about one-third companies and two-thirds individuals. Executive vice-president is Ben Park.

Southern Growth Policies Board (SGPB). A public agency governed and supported by the state and local governments of 12 Southern states and Puerto Rico. The board assembles information and makes recommendations relating to growth problems and opportunities in the South. Offices are in Research Triangle Park, North Carolina.