

TRANSITIONAL QUALIFIED FOREST PROPERTY

Phone: (517) 373-8080
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Senate Bill 651 (reported from House Committee as H-1)

Senate Bill 652 (reported without amendment)

Senate Bill 653 (reported from House Committee as H-1)

Sponsor: Sen. Darwin L. Booher

House Committee: Tax Policy

Senate Committee: Natural Resources

Complete to 5-31-16

Analysis available at
<http://www.legislature.mi.gov>

PRELIMINARY FLOOR SUMMARY:

These bills would, generally speaking, allow forestland to move from the Commercial Forest Program to the Qualified Forest Program, with the tax increase associated with the transfer to the QF program phased in over five years.

There are two tax abatement programs for forestland:

- (1) The **Commercial Forest (CF) Program** allows land to be registered as commercial forest and to be subject to a specific tax of \$1.25 per acre, rather than standard ad valorem property taxes. (The state pays a matching amount to local units of government.) Land enrolled in this program must be open to the general public for hunting and fishing. This program is found in the Natural Resources and Environmental Protection Act (NREPA), and is administered by the Department of Natural Resources (DNR).
- (2) The **Qualified Forest (QF) Property Program** provides a tax exemption (added by Public Acts 378-380 of 2006) that is intended to encourage private land owners to manage their land for forestry by exempting qualified land from school operating taxes. Land owners participating in this program do not have to allow access to the general public, and land must be managed according to a department-approved forest management plan. This program is found in the General Property Tax Act, and is administered by the Department of Agriculture and Rural Development (MDARD).

Recent legislation (Public Acts 43-50 of 2013) was enacted to encourage landowners with smaller tracts of forestland to move from the Commercial Forest Program, which is intended for large commercial operations, to the Qualified Forest Property Program without penalty, with the aim of promoting timber operations on the smaller parcels.¹ Generally speaking, property owners that transfer from the CF program to the QF program pay a higher property tax as a result (although they no longer have to allow public access to the land; e.g., for hunting). The deadline for such transfers was September 1, 2015 (although this package would extend that deadline by five years).

¹ See: <http://www.legislature.mi.gov/documents/2013-2014/billanalysis/House/pdf/2013-HLA-4069-048A87F0.pdf>

Senate Bill 651 would create a new act, the **Transitional Qualified Forest Property Specific Tax Act**, which would allow forestland in the Commercial Forest Program to be considered "transitional" forest property for up to five years and be subject to a new annual specific tax (as described later).

As noted earlier, this property would, essentially, be moving from the CF program to the QF program without penalty and with the tax increase associated with such a transfer to the QF program phased in over five years.

Senate Bill 652 would make complementary amendments to the General Property Tax Act, and **Senate Bill 653** would make related amendments to the Natural Resources and Environmental Protection Act (NREPA). The three bills are tie-barred, meaning all must be enacted for any to take effect.

SB 651

Under Senate Bill 651, transitional qualified forest property would be exempt from ad valorem property taxes for up to five years. Instead, such property would pay a "specific tax," collected and generally administered and distributed in the same manner as the property tax, and calculated as follows:

Multiply the number of mills that would be assessed in the local tax collecting unit if the property were subject to the General Property Tax Act (minus local school operating mills) by the property's assessed value. Then, for the first year the property is subject to the new act, multiply that calculation by .20 (one-fifth). In the second year, multiply by .40; in the third year by .60; in the fourth year by .80; and in the fifth year by 1.0.

This means, by the fifth year, the property will be paying the same amount of tax as required under the regular Qualified Forest Program.

(Specifically, the specific tax would be the tax calculated as described above or the tax paid under the Commercial Forest Program, whichever is greater; meaning that taxes paid under the specific tax could not be less than paid under the CF program.)

Briefly, other features of this new program, **under SB 651-653**, include:

- Owners of forestland would apply to MDARD to have forestland determined to be transitional qualified forest property.
- The application would have to include a forest management plan and a \$50 fee.
- Denials could be appealed by certified letter within 30 days.
- An owner could claim exemption for up to 160 acres per township. Any remaining forestland within a township must continue to qualify as CF property or be subject to the penalty for withdrawal.
- An owner of former CF property must have owned that property since no later than September 1, 2016.
- The deadline for the transfer would be September 1, 2021. (The current deadline for transferring from CF to QF has passed; it is September 1, 2015.)

- MDARD would have to maintain a database of transitional qualified forest properties, including the dates for forest practices and harvests in the forest management plan, and notify the property owner and conservation district in any year forest practices or harvests are to occur.
- Information in the database specific to an individual property is exempt from disclosure under the Freedom of Information Act, but aggregate information, including how much timber is expected to be on the market each year, is not exempt.
- If an owner does not accomplish forest practices and harvests within three years after the time specified in the management plan, the property no longer qualifies as transitional qualified forest property.
- MDARD and the DNR must establish in writing a basis of interdepartmental cooperation when an owner of forestland seeks to withdraw forestland from the CF program without penalty (by becoming transitional QF property).

FISCAL IMPACT:

A fiscal analysis is in process.

POSITIONS:

The following indicated support for the bill on 5-11-16:

- The Michigan Forest Products Council
- The Great Lakes Timber Professionals Association, and the Michigan Association of Timbermen
- Weyerhaeuser
- The Michigan Hunting Dog Federation
- The Michigan United Conservation Club
- The UP Bear Houndsmen
- The Michigan Bear Hunters Association

The Department of Agriculture and Rural Development (MDARD) indicated neutrality on the bill, and department representatives testified on 5-11-16, expressing concerns over meeting deadlines in the bill given current staffing levels.

Legislative Analyst: Chris Couch
Fiscal Analyst: Jim Stansell
William E. Hamilton

■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.