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Forest Land - Class 10

History

The Montana Legislature passed the Forestlands Tax Act in 1991. This law requires the Department of Revenue to value forestland based on land productivity. The legislature defined the productivity formula and each component of that formula. It also provided for specific forest valuation zones, with each zone designated to recognize the uniqueness of marketing areas, timber types, growth rates, access, operability, and other factors important to the valuation of the forest land in that geographic area.

The potential productivity system was supported by the forest products industry, the Montana Tree Farmer's Association and other forestry landowners.

From the earliest efforts of local assessors to 1993, Montana relied on hand drawn maps to assess commercial forestland. The forest tax system experienced a leap in technology when productivity forest maps were computer generated in 1993. However, the DOR still had to hand draw property boundaries for every landowner in the state and manually calculate forest and non-forest acreages. These maps were manually maintained for 15 years.

In 2009, the DOR implemented the extensive use of Geographic Information System (GIS) technology that contains numerous layers of information, including the state's cadastral (ownership) database, agricultural and forestland land use, building site locations and land productivity estimates. The ORION appraisal system is linked to information produced by this GIS. Virtually all the manual functions that DOR staff have conducted in the past to assess forestland are eliminated.

The 2009 reappraisal produced the most significant changes to the existing forest tax system since it was implemented in 1993. Forest productivity estimates were re-evaluated using advanced technology, data and modeling techniques. The forest productivity classification system went from four productivity grades based on cubic feet yield, to an estimated productive capacity, or the culmination of mean annual increment, expressed in board feet per acre. Forest/non-forest boundaries were manually re-digitized on private forest land using 2005 digital color photography. Lastly, forest and agricultural land were merged together into a seamless statewide land use map. The capture of the current uses and productivity information and the ability to visually display the results on aerial imagery maps provides the tool by which current available technology can be used to keep appraisals current and equalized using the same common data sources statewide.

Productivity Classification System

Forested land must be at least 15 contiguous acres or larger in size and in the same ownership to be classified as commercial forest land. Forested land less than 15 contiguous acres in size is classified as non-forest land. Potential forest growth is estimated for each acre of forested land, including "clear-cuts." That growth is measured in cubic feet per acre per year. The estimated potential forest growth is placed in one of four valuation zones. Forested land that does not meet the minimum growth requirement is classified as noncommercial forestland. This minimum growth requirement is 25 cubic feet per acre per year at the peak biological age of a stand (the technical forestry term for peak biological age is "culmination of mean annual increment"). Noncommercial forest land is not valued as forest land for property tax purposes. Non-forest and noncommercial forest land may be valued as tract land, agricultural land or nonqualified agricultural land.

Standing timber is exempt from property taxation. Only the land, not the standing timber, is eligible for property taxation. If a landowner deeds his timber to another party, the landowner, not the timber owner is responsible for the forest land property tax.

On any given commercial forestland site, a clear-cut would receive the same value as an old growth stand (standing timber is not taxed). Forest management practices will not influence the forest assessment. Knowledgeable forest landowners will realize that they can practice intensive forest management to optimize wood production and enhance other non-timber elements, without the penalty of higher forest land property taxes.

Agricultural and forestlands are often intertwined. Both types of land are valued under the "productivity"

concept.

Classification of Forest Land and Tax Rate

The legislature assigns all taxable property to individual tax classes. There are currently 14 property tax classes in use in Montana. The legislature specifies the tax class percentages that are applied against the value of the property within each tax class to calculate the taxable value. A parcel of land may have several classes of property. The most common property classes for rural land are forestland, agricultural land, and nonqualified agricultural land. Each property class has a different tax class percentage. Forestland is in Property Tax Class 10 and is assigned a tax rate of .33 % of its productive capacity in 2009 and .34% in 2010.

There are approximately 4 million privately owned acres classified as forest land in Montana. The criteria for classifying property as forest land are:

- Forested land must produce at least 100 bd ft/ac/yr @ CMAI.
- Forested land must be at least 15 contiguous acres or larger and at least 120 feet in width.
- Multiple parcels must be contiguous and in the same ownership.
- The land cannot be dedicated to another use such as agricultural, residential, commercial or industrial.
- The land must be stocked with at least 10 percent commercial "softwood" tree species unless the trees have been removed by man through harvest, including clear-cuts, or by natural disaster.
- The land cannot be removed from timber utilization because of deed restrictions, covenants or governmental operations of law.
- The land cannot be incapable of producing commercial wood products because of adverse site conditions or physical inaccessibility.

The tax class percentages for 2009 and 2010 are listed below.

Tax Rate

| Type of Land Parcel | Tax Year 2009 | Tax Year 2010 |
|--------------------------------|---------------|---------------|
| Forest Land | .34% | .33% |
| Agricultural Land | 2.93% | 2.82% |
| Nonqualified Agricultural Land | 20.51% | 19.74% |

The forest land taxable value is 0.34% in 2009. It requires \$10,000 in forest land appraised value to produce \$34 in taxable value. In contrast, \$10,000 in agricultural appraised value will produce \$293 in taxable value.

Valuation Formula for Forest Land

The valuation formula for commercial forest land is found in 15-44-103, MCA, Legislative intent-value of forest lands-valuation zones. The income approach to value is used to calculate the forest land valuation schedules. Net forest and other agricultural income are capitalized. The formula is $V=I/R$, where:

- V = per acre forest and other agricultural productivity value
- I = per acre net income of forest lands
- R = capitalization formula

The forest productivity formula can be further defined as:

$$V = \frac{((M \times SV) + AI) - C}{R}$$

Where:

- M = mean annual net wood production
- SV = stumpage value
- AI = per acre agricultural-related income
- C = per unit cost of the forest product and the agricultural product

Montana has four forest land valuation zones. A valuation zone is designed to recognize the uniqueness of marketing areas, timber types, growth rates, access, operability and other pertinent factors of that zone. Looking at the major independent variables in state timber sales and analyzing their relationship to stumpage price determine these zones. Log flows to manufacturing centers and sale population in a regression analysis are major variables considered in this process.

Each valuation zone has the same valuation formula. However the income and expense data varies with each zone. The valuation data is applied to the productivity associated with each forest land polygon. Valuation data is updated for the beginning of each reappraisal cycle and then frozen for the duration of the cycle.

Frequently Asked Questions

Q. How do I know what my forestland values are?

A. When there is a change in valuation or ownership, the Department of Revenue mails property assessment notices to the owner of record, that reflect the value of the property as of January 1 of that year. All forest land owners received a new assessment notice in the spring of 2009 showing the change in appraised and taxable values that resulted from the reappraisal of their forest land. For those taxpayers who cannot locate their assessment notice, the local Department of Revenue office in the county where the forestland property is located will have the valuation information.

Q. Where can I go to see how my forestland values were determined?

A. The state map depicting the forestland valuation zones may be obtained from your local Department of Revenue office. The maps depicting the productivity of your forest land used in the valuation can be viewed in the Department of Revenue office of the county where the property is located.

Q. Can I appeal my forestland property value?

A. Yes. Your property appeal rights and filing deadlines are identified on your assessment notice. However, prior to filing an appeal, we would like the opportunity to answer any questions or concerns you might have with the value placed on your property. For this reason, we provide an informal review process. This process allows you to make a written request for valuation review. Begin the valuation review process by completing the Request for Informal Review form, known as an AB-26, with your reason(s) for disputing the property value. File the AB-26 with your county office within the deadlines indicated on your assessment notice. This process provides you the opportunity to explain why you believe the value shown on your assessment notice is incorrect. Local staff will review your written concerns and recommendations resulting in a written response to you.

If we cannot satisfactorily resolve your concerns through the informal request process, there is a County Appeal Boards available to hear your concerns.

Please do not wait until you receive a tax bill to voice your concerns. Your tax bill includes items, other than value, such as special improvement district assessments, rural district charges, and various fees. Again, if you have waited until after you have received your tax bill to express a concern about your forest land value, the deadline for appeal will have expired. For specific time frames, please refer to your assessment notice.

We are pleased to visit with you about your forestland property assessment. Everyone who is involved in the taxation process wants to help you understand how your property taxes are determined and what services your property tax dollar provides. For more information about your assessment, please contact the [Department of Revenue office located in your county](#).

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