

# **ILLINOIS FORESTLAND PROPERTY TAX ASSESSMENT**

A Position Statement by the Illinois Forestry Association  
Revised: May 15, 2007

## **Position**

The Illinois Forestry Association (IFA) recognizes the responsibility forest landowners have to support local government programs and services through property taxes, while taking into consideration the unique economic constraints they have with respect to holding and growing trees. Programs and incentives for forest landowners need to be strengthened and enhanced with this in mind.

The IFA strongly supports the establishment, retention, management, and utilization of forest lands, grasslands and wetlands that provide important biological, social, economic, and environmental benefits for the citizens of Illinois. Further, the IFA strongly supports the position that if any person is willing and does place their forest land under a management plan as specified by the Forestry Development Act of 1983, they should receive the tax benefit.

## **Issue**

The Illinois Forestry Development Act (IFDA) of 1983 established a property tax incentive for landowners who place their forest land under management. The return on investments of time and money by forest landowners who are actively managing their forests are long term. Therefore, it is critical to provide tax incentives to encourage these landowners to continue being good land stewards. It is equally as critical to provide incentives to draw additional forest landowners into the IDFA programs. A tax benefit is an effective tool in preventing the conversion of forests to other uses. These incentives ensure the retention of forest land that leads to improved water and air quality, wildlife habitat that is critical to Illinois wildlife populations, the control of soil erosion, and the sequestration of carbon. Programs and incentives that currently exist to encourage land owners to develop and manage their forest resources on a long term basis must be retained and expanded upon!

Forest landowners in many counties are facing dramatic property tax increases as a result of action taken by the Farmland Technical Advisory Board. Forest land not associated with a farming operation will be reassessed according to existing guidelines that will result in a twenty to over one hundred fold assessment increase. The tax consequences associated with the magnitude of these increases will be devastating for the forest resources and the families who own these resources. Increased property taxes will create great pressure on owners of forest land and forested wetland habitat to convert these lands to uses that are tax-favored or to uses that provide immediate or more consistent cash returns. Such uses include conversion to cropland, hay production, pasture and real estate development. Immediate and indiscriminate logging will occur. The threat of forest land conversion is heightened near urban areas where intense development pressures exist. This is also where the greatest percent increase of property taxes can occur with an irrevocable loss of forest land.

Often these lands are subject to strong financial pressures due to development and outdoor recreation pressures. This can result in tax consequences that force landowners to sell their forest land. The result is smaller forest parcels or conversion to other types of land use altogether. This kind of “parcelization” and conversion causes irreversible damage to the forest and the important benefits Illinois forests provide. Fragmentation or loss of habitat, invasion by invasive and exotic species and management problems in trying to perpetuate these forested systems are the consequences of such processes.

In order for landowners to receive a preferential tax treatment for their forest land under current laws and regulations, it must be demonstrated that their trees are being grown and utilized as a crop. The most definitive manner in which to do so is through participation under the provisions of the Illinois Forestry Development Act (IFDA). This program is administered through the Illinois Department of Natural Resources’ (IDNR) Division of Forest Resources. Participation in the IFDA program guarantees the lowest possible assessment for forest land. This situation has created an unprecedented demand for forestry assistance throughout the state. This demand is not being met by IDNR foresters who have lost over 50% of their field staff in recent fiscal years. Private consulting foresters, likewise, are unable to keep up with the demand for the assistance needed to develop forest management plans required in order to receive this tax benefit. Pending forestry assistance requests for first time assistance are estimated at nearly one thousand (1,000). This creates lengthy delays in responding and meeting the needs by forest landowners. Furthermore, the implementation of any future remedy to the tax assessment issue will require adequate numbers of forestry professionals to assist and monitor landowner management activities

Landowners who are unable to get immediate assistance and cannot absorb the resulting increase in property tax will be forced to sell their property. In addition to the impacts previously stated, this trend will also undo past forestry and wildlife habitat conservation efforts by IDNR, private conservation groups and federal agencies. These entities have invested millions of dollars in conservation improvements which are now in jeopardy.

(See the Illinois Forestry Association’s Position Statements on the need for additional forestry staff and the restoration of the Forestry Development Act Cost Share funds.)

## **Background**

Forest landowners are faced with unique challenges of land ownership due to the long term nature of growing and managing their forest resources. Financial investments in improving these forests require extended periods of time before any type of economic return is realized.

One of the provisions of the IFDA (1983) established a tax incentive for Illinois forest landowners to place their forest land and tree plantations under forest management. The Act stipulates that if an Illinois forest landowner has a forest management plan approved by an IDNR forester, that forest land is entitled to be taxed at the rate of one-sixth its cropland value. The

Act also stipulates that timber production must be one of the goals of the forest landowner, and such a timber harvest should be guided by the forest management plan. In Illinois, over 90% of the 4.26 million acres of commercial forest land is in private ownership. It is estimated that there are approximately 114,000 forest landowners in the state (*Forest Resource of Illinois, 2002*). Of these landowners, approximately 83% are farmers or private, non-farming individuals. An estimated 80% of these have never received professional forest management assistance. Hence the incentive to place privately owned forest land in Illinois under management.

In 2004, the Farmland Technical Advisory Board (FATAB) developed a resolution to reach uniform and equitable assessments within the county and state-wide. In response, the Illinois Department of Revenue (IDOR) asked each county to review its assessment practices and to make any needed corrections to be sure that all provisions of the existing Farmland Assessment Law and IDOR Implementation Guidelines are met. Counties were asked to be sure that only eligible properties receive the farmland assessment. This would correct any violations before transition to Bulletin 810 soil productivity indices which went into effect January 1, 2006. The productivity of a soil is a factor in the assessment of farm properties. Soil productivity indices were revised in 2000, but are just now being used to replace the older soil productivity indices. To comply, counties have been examining land use assessment protocols in order to correct improper assessments. If these properties were mis-classified as farmland, they will now be assessed at 33 1/3% of fair market value. In comparison, current assessments on some of these lands equate to less than 1 % or 2 % of fair market value

The Farmland Assessment Law applies to qualifying farm property only. In order for forested acreage to receive assessment under farmland assessment guidelines, it must be attached or associated with a farming operation. A general rule of thumb seems to be at least fifty percent (50%) of the property must be producing row crops and/or pasture, although the formula for assessing farmland is much more complex. Just because a tract is located in a remote or rural area or and has trees or brush on it does not mean it is eligible for a farmland assessment.

This change in property tax assessment procedures will have significant adverse consequences for woodlands, wetlands and grasslands and will negatively impact the related forest, fish, wildlife, high quality natural communities, soil, and water resources in Illinois. The acreage classified “non-farm” under the new guidelines is not known. It is likely to be only a modest part of total rural lands because the vast majority of rural land in Illinois is cropland. However, the amount of forest lands, grasslands and wetlands on non-farm areas is believed to be very high and represents a critical percentage of the total acreage of these important natural resources.

Under the IDOR guidelines, county assessors classify wooded acres into two categories, “farm” and “non-farm”. Wooded acres that are part of a farming operation are classified as “other farmland” under existing state law and assessed at one-sixth the value of cropland. “Non-farm” wooded acres are assessed in two possible ways. If the property has an IDNR certified forest management plan, it receives the preferential tax treatment of one-sixth the value of cropland. Without the forest management plan, it is assessed at 33 1/3% of market value.

Wooded acreage that is not part of a “farm” and does not qualify for another preferential assessment is assessed at 33 1/3 % of market value according to its highest and best use. Qualifying wooded acreage that is not part of a farm may qualify for a reduced assessment under other statutory provisions. These include: a) IDNR Forestry Management Plan (Section 10-150 of the Property Tax Code); b) Non-Clear Cut assessment (Section 10-153 of the Property Tax Code); c) Open Space assessment (Section 10-155 of the Property tax Code); and d) Registered land or land encumbered by conservation rights (Section 10-166 through 10-168 of the Property Tax Code).

In other farm related programs such, as the Conservation Reserve Enhancement Program (CREP), most landowners with state easements will not be greatly impacted. However there is a need to make the tax rates consistent with the Wetland Reserve Program (WRP) property tax rates. Under WRP, the landowner gives up development and farming rights to that property. Landowners who give up such rights on their property, regardless of the program in which they are enrolled, should be taxed consistently.

Landowners with properties enrolled in CREP State Easements do have the ability to apply for Conservation Right Public Benefit Certification. This would assess the property at 8 1/3% of the property’s fair market value estimated as if it were not encumbered. However, to date most landowners have not filed for this since they still benefit from the Conservation Reserve Program (CRP) contract on the federal side and receive a farmland assessment. As long as the property in the CREP easement is part of a large farming operation, it will not be a problem when the easement actually takes effect since it will continue to receive farmland assessment. If the CREP easement is over the entire piece of property, the landowner will need to file for the Conservation Right Public Benefit to reduce taxes when the easement goes into effect. (The state easements go into effect when the CRP contract expires).

For non-farm areas other than forest lands, there are no provisions for preferential treatment. Grasslands, wetlands and lands not suitable for forest management will be universally subject to dramatically increased assessments. This would affect state programs adversely such as Acres for Wildlife and the new Landowner Incentive Program (LIP) when the landowner is establishing wetlands or grasses without a permanent easement. Those with forest management plans would receive a preferential tax treatment.

In the last session of the Illinois General Assembly, a joint resolution (HJR0095) was passed that encouraged the Dept of Revenue to continue to accept previously assessed forest lands under farmland assessment guidelines for the next two (2) tax years (2006 and 2007). The resolution also established a twelve member (12) Wooded Land Assessment Task Force to study the question and make recommendations to the General Assembly regarding this issue with its first report due to the Governor December 31, 2006. HJR0095 is non binding and there are instances counties moving forward with reassessments of non-farm or stand alone woodlands.

## Recommendations

The Illinois Forestry Association recognizes the important values that Illinois' forests produce. IFA acknowledges that forest landowners endure financial obligations based on their forest holdings with delayed revenues from such lands often not commensurate with these related expenses. Due to the long term nature of holding forest land and associated ownership patterns, future programs, incentives, laws and regulations should be developed with this in mind. The IFA recommends the following:

- that the Woodland Assessment Task Force take action to provide the lowest tax assessment possible (the 1/6<sup>th</sup> rate) to any individual who willingly develops and implements a Forest Management Plan approved by the IDNR.
- Amend (35 ILCS 200/) Property Tax Code to provide that forestland, 10 acres or more, which are unmanaged forestlands or managed for non-timber production goals be assessed at no more than 8 1/3% the fair market value of the property.
- Amend (35 ILCS 200/) Property Tax Code to include a tax rollback stipulation for non compliance with implementing the forest management plan required to receive preferential tax treatment
- Increase staffing levels of the IDNR - Division of Forest Resources by restoring headcount levels and filling District Forester, Forestry Technician and field clerical support positions that existed prior to 2002 early retirement initiative
- Support the IL Forestry Development Council in developing a strategy to strengthen and expand the professional consulting forester industry in order to increase the technical forestry capacity needed in the state to help meet increasing service demands by the public

These recommendations provide a compromise between the agriculture vs fair market debate on non-farm forest land. Tax relief is also provided to forest landowners dependent upon the level of investment a landowner chooses to make in establishing, protecting and enhancing forest values that benefit all Illinois citizens. They also reduce pressure on the professional forestry workforce and increase the capacity to deliver the assistance, monitor implementation and provide the accountability is important for a sustainable, successful

Tax incentives, provided under the IFDA have encouraged and rewarded many Illinois forest landowners to properly manage their forests and will encourage many more to do so in the future. Other types of programs administered by the IDNR, such as Acres for Wildlife, the Conservation Reserve Enhancement Program, and the Wetland Reserve Program, would also benefit from such a tax incentive. The IFA will work with IDNR, the Governor, and the Illinois General Assembly to help enact recommendations from the Wooded Land Assessment Task Force that meet the goals of developing sustainable forests and other open space that will benefit landowners and all the citizens of Illinois who depend upon the benefits these natural resources provide.