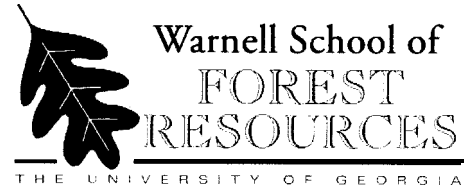

TIMBER HARVEST TAX: WHO PAYS, WHEN, WHERE AND HOW MUCH?

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General Information

Since 1992, timber value is no longer added to the value of the land in the county tax digest. Timber and land are each a separate class of property and are taxed differently.

First, the county assesses timber at 100 percent of its fair market value (FMV) times the millage rate at the time of sale, or harvest if there is no sale. Normal property assessment is 40 percent of the fair market value every year. The FMV of timber is generally going to be the actual sale price, but it must be a bona fide sale. For example, it cannot be a sale which would not reflect what the timber would have sold for on the open market (e.g. father to daughter for a "special price").

Second, the timber sale must be separate and apart from the land. There is no tax on the timber where the owner simultaneously sells the land and timber as a unit without timber harvest. The county taxes only timber sold and intended for harvest.

Third, all timber sales and harvests, except a landowner cutting firewood from his own land for use within his personal home, are taxable. Timber cut and manufactured into a product by the owner is considered a harvest and taxed as such. County assessors tax timber under three general categories. These are: **Lump Sum Sales, Unit Sales and Owner Harvests.**

Lump Sum Sales

A lump sum sale is the absolute sale of specific standing timber for a fixed total price. Buyer and seller agree to the lump sum price before cutting begins. Usually, lump sum sales are by contract. Since the ownership of timber changes with a lump sum sale, a timber buyer can record these sales with a deed. These sales are also called "boundary sales" when the owner sells all timber within a given area. They may also include sales of marked timber, timber of a specific size, or only of certain species. Let's look at an example of a typical lump sum sale and how the ad valorem tax would be handled.

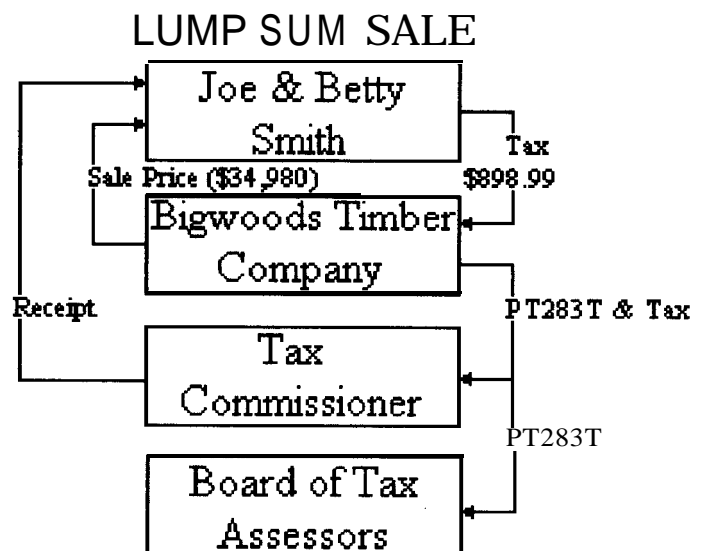
Joe and Betty Smith talk with their consulting forester and decide to sell approximately 40 acres of mature pine. After marking the boundaries, they prepare an invitation to bid which includes a description of the area, a sample contract and other information needed to complete the sale. They mail invitations to every buyer they think may be interested. After opening the bids, Joe and Betty select Bigwoods Timber Co. As agreed to in the invitation to bid, Bigwoods gives Joe and Betty a 10 percent binder until they meet to sign the contract and make the payment. Note that many variations may occur with the sale (e.g., on small sales the total payment may be at the bid opening.)

Betty and Joe and Bigwoods representative, Jim Sawbuck, meet to sign the contract. Jim pays Betty and Joe in full.

Together, they calculate the ad valorem tax due on the sale. They calculate the tax by multiplying the total sale price of \$34,980.00 times the county millage rate, .02570. The total tax due is \$898.99. At this time the couple write out a check for the tax **made out to the county tax commissioner/collector. They** then give the check to Jim and as a group fill out the PT-283T report and sign it. Jim, as the purchaser, is personally responsible for transmitting the ad valorem tax. He has five business days to pay the tax and file form PT-283T with the local county tax commissioner/collector. **Although purchasers deal directly with the tax commissioner on a lump sum sale, the statute provides that they must also furnish a copy of form PT-283T to the board of tax assessors.**

Jim may record a timber deed with the Clerk of Court when he pays the tax. But, he does not have to. Filing the timber deed establishes a record in the court house that ownership of the timber has been transferred from Joe and Betty Smith to Bigwoods Timber Company.

If the timber falls inside a city, the city will also levy its ad valorem tax. The county usually collects any county and city ad valorem taxes. The county then pays the city. This prevents the seller and buyer from having to file and pay twice.



Unit Price Sales

A unit sale, or pay-as-cut sale, occurs when the buyer and seller agree to a specified rate of payment for each unit of timber cut and measured. Cords, thousand board feet (MBF), tons, etc. are common units of measure, but tons are the legal measure if payment is made based on weight. Unlike a lump sum sale, with unit sales the seller owns the timber until the buyer harvests it. The buyer makes payments, usually weekly or monthly for units

harvested. With unit sales the buyer makes payments over time. Because it is impractical to report and collect the tax every week, taxes on unit sales are paid and reported quarterly.

In our example, George Gentry and his sister, Shirley Lee, have 100 acres of 16 year old plantation pines that need thinning. Since Shirley handles the affairs for the estate, she handles all of the ad valorem tax transactions. Her consulting forester has recommended and marked the timber to remove every fifth row and the poorer trees in the remaining rows. The sale is entirely pulpwood so Shirley targets that specific group of buyers with her bid invitation. The winning bid came from Brown Paper Co. with a bid of \$9.34 per ton. When harvesting starts, Brown Paper Co. will have 45 days from the end of the calendar quarter to fill out and mail form PT-283T.

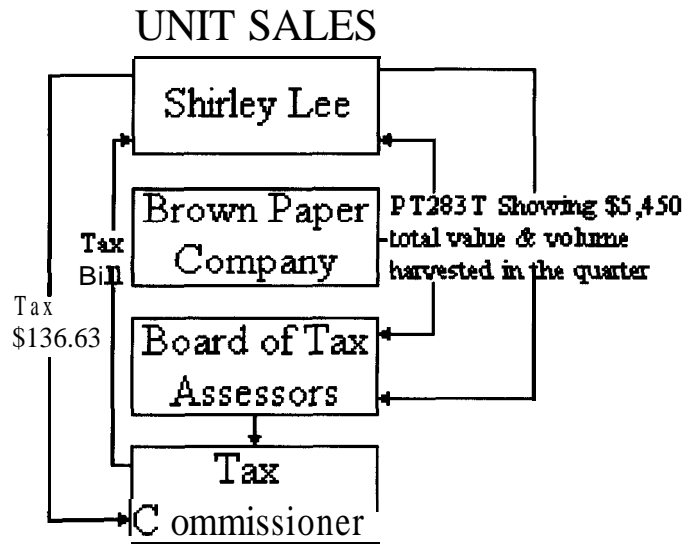
For unit sales, the copies of PT-283T are filed with the tax assessor, not the tax commissioner. Two copies are mailed by the buyer to the landowner; and, one copy is mailed by the buyer to the board of tax assessors. An "extra" tax commissioner's copy may also be mailed to the board of tax assessors who will use it to notify the tax commissioner of the value on which the bill is to be based.

When Shirley gets her copies she has 15 days to compare her records with the form and see if they agree. Once she is satisfied the PT-283T is correct, she will **sign one copy and mail it to the tax assessor.** The tax assessor now should have two copies of PT-283T that match. One comes from Brown Paper Co. and one from Shirley. Then, the tax assessor notifies the tax commissioner of the value on which the bill is to be based. The tax commissioner calculates the tax due by multiplying the county millage rate, .02507, times 100 percent of the FMV of the timber sold during the quarter. The total value paid out during the quarter is \$5,450. Ad valorem tax due for the quarter is \$136.63. The tax commissioner bills Shirley directly for that amount. She has 30 days to pay the tax.

There are two important differences between a unit sale and the other methods. First, the form PT-283T and the information on it are confidential records. PT-283T contains not only the amount of money paid out during the quarter but the volume, in tons, of wood harvested during the quarter by product class. Divide the total price by the volume, in tons, and arrive at the per ton price of \$9.34 or a per cord price of \$25.00. See form PT-283T for conversion factors between tons and cords. This value is confidential between the seller and the purchaser and the form's confidentiality protects this information.

Second, unit sales frequently will have an advance ("up front money") that the purchaser considers as a "down payment" for part of the estimated value. As the cutting proceeds, the buyer deducts payments from this amount until the advance is dispersed. Then regular payments begin. For example, if Shirley received a \$2,000.00 advance and Brown Paper Co. was harvesting 50 cords a week, during the first week, \$1,250.00 of timber would be cut. Shirley would not receive a payment this week. If the buyer cuts the same amount of timber the second

week, Shirley would get a payment of \$500.00 (\$1,250.00 minus the \$750.00 balance from the advance). If the buyer completes the harvest during the quarter and Shirley gets the entire value during the quarter, Shirley pays the ad valorem tax on the entire value. However, if the first week of the harvest is in one quarter and the balance in another, she would pay taxes on \$1,250.00 in the first quarter and the balance in the second quarter.



Owner Harvests

Often, owners harvest their timber and receive no direct stumpage payment. Here the timber is not bought on the open market. The primary example is a timber company cutting on its own land to supply its mill. To establish a fair market value for ad valorem tax purposes, those harvesting under this method would report the volume of timber cut in the quarter by product class. County tax assessors then use an annual table of values from the Department of Revenue to calculate the valuation for ad valorem tax purposes.

Other Sales or Harvests

Where a timber transaction does not fit the above categories, the law calls for it to be taxed "in the manner most similar" to it. For example, if individuals trade land for timber, they should establish FMV for the land and calculate the tax due on the timber as if it were a lump sum sale.

Interest and Penalties

Interest at one percent per month is due on all unpaid taxes. A **penalty** of one percent per month of the tax due is charged for the first 12 months if the timber reports are not filed as required by the act. After 12 months, the failure is presumed intentional and the penalty is 50 percent of the tax due. This is not an additional penalty. Rather, there are two distinct penalties - one for unintentional failure and one for intentional failure. The two are not added together.

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