

Fiscal Estimate Narratives

DNR 2/10/2006

LRB Number	05-4010/1	Introduction Number	AB-1011	Estimate Type	Original
Description The determination of the value of timber for purposes of assessing a yield tax					

Assumptions Used in Arriving at Fiscal Estimate

Summary: The proposed legislation would revise the yield tax valuation method for timber harvested on MFL land from one based on stumpage value under NR 46.30 (2), Wis. Admin. Code, to one based on the amount received by the landowner in an arms-length sale.

Under current law, an owner who harvests timber on Managed Forest Law (MFL) land is assessed a 5% yield tax on the value of the timber harvested. The value is set based on the actual volume of timber harvested and the current stumpage rate for the species and product in the applicable zone (13 zones statewide). The stumpage rates established in NR 46.30 (2), Wis. Admin. Code., are calculated using timber sale data from private and public timber sales. The rates are three-year weighted averages, with adjustments made through the public hearing process. These rates are also used for calculating the timber values for the 10% severance tax assessed on timber harvested from land designated as Forest Crop Law (FCL) land. One hundred percent of the MFL yield tax collected is distributed to the local governments where the associated MFL land is located (80% to the municipality and 20% to the county).

STATE FISCAL IMPACT – One-time costs.

The state would incur one-time costs totaling \$27,200 associated with redesigning the MFL Oracle database and MFL computer program used to calculate, issue and track yield taxes. This includes 320 hours of contracting for computer programmer time not available within the Department (320 hours x \$85/hour = \$27,200). The work needed includes 160 hours to update/create computer screens used to enter, edit and track data; 120 hours to update/create reports used in billing and tracking yield tax; and 40 hours to modify the Oracle database.

STATE FISCAL IMPACT (ANNUALIZED) – To monitor the accuracy of landowner reports of amounts received in arms-length timber sale transactions for purposes of ensuring that proper yield tax amounts are distributed to local governments, the Department estimates that it will incur annual costs of \$66,400 for salary (\$22/hr) and fringe (44.6%) associated with a full-time position to monitor/audit a portion of the arms-length MFL timber sale transactions throughout the state. .

ANNUALIZED STATE FISCAL IMPACT (continued) -- The bill does not define "arms-length sale" and the Department assumes that it would have to define the term by rule to help ensure fair compensation to towns and counties based on MFL yield tax assessments. Under current law, yield tax assessments may be readily verified by applying the stumpage values listed in administrative code to the volume of timber cut. Cut volume can be assessed by comparing pre- and post-sale timber reconnaissance data. Verifying timber values from an arms-length sale may be much more difficult. The Department may have trouble obtaining information from the sellers, buyers or wood-using industries on which to base its assessment of whether the amount listed on the cutting notice by the landowner is the actual amount that the seller received through the arms-length sale.

The full time position (1800 hrs) would be needed to implement the monitoring/auditing of 10% to 15% of the sale values reported annually--an amount the Department assumes would be a representative sample of MFL sales transactions. The time estimate is based on an average of 2000 MFL yield tax invoices issued per year and 6 hours per audit (2000 invoices x 15% = 300 audits; 300 audits x 6 hrs per audit = 1800 hrs). The number of MFL yield tax invoices has increased from 1,759 in 2000 to 2,900 in 2005.

The workload associated with auditing timber values would be in addition to the workload associated with the MFL cutting notice and reporting process currently carried out by Department foresters. The cutting notice and reporting process is required under statute to approve and verify that sound forestry practices are being implemented on the MFL land. This current process includes audits of landowner information, legal descriptions, compliance with the forest management plan, and proper reporting of timber volumes, species and products (e.g., logs, cordwood, pieces).

Implementing this proposal is further complicated by the fact that almost 50% of the timber harvested on MFL lands comes from the 850,000 acres owned by the timber industry. The timber industry typically does not have the same type of arms-length sale of timber agreements as non-industrial private landowners. The Department would have to interpret and define "arms-length sale" for purposes of yield tax calculations for timber harvested from industrial MFL lands.

The Department further assumes that many non-industrial private MFL participants do not use a traditional arms-length sale when harvesting timber. It is very common for landowners to receive various services from logging contractors in exchange for a decreased payment for the timber harvested. Examples include receiving free additional (in excess of that needed to harvest the timber) road building services including bridges and culverts, or receiving cut forest products such as firewood or logs from the logging contractor. Other landowners may receive payment for the timber in various forms. A common example is the logging contractor paying the landowners property taxes. Knowledge of such agreements between the landowner and the logging contractor are unknown to the Department and almost impossible to verify. The bill refers to the "amount of money" received for the timber in arms-length sales and does not appear to account for the types of "like-kind" transactions referenced above. Consequently, in cases combining money and "like-kind" exchanges, local governments would not receive yield tax revenue commensurate with the fair market value of the cut timber.

The current system of establishing stumpage rates in administrative rule will need to continue for use in calculating the 10% FCL severance tax for timber harvested on FCL lands, therefore the Department's workload related to establishing those rates will continue.

LOCAL GOVERNMENT FISCAL IMPACT - The fiscal impact to the municipalities and counties cannot be determined with any specificity given the outstanding questions related to assessing arms-length sales as discussed above.

Long-Range Fiscal Implications

The number of MFL yield tax invoices has increased from 1,759 in 2000 to 2,900 in 2005. Staff needed for auditing will increase if the number of invoices continues to increase.

Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

LRB Number 05-4010/1		Introduction Number AB-1011	
Description The determination of the value of timber for purposes of assessing a yield tax			
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect): \$27,200 will be needed to cover the one-time cost associated with redesign of the MFL Oracle database and MFL computer programming used to enter, edit, issue and track MFL yield tax billings. Additionally, the Department will incur one-time costs associated with rulemaking.			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
State Operations - Salaries and Fringes		\$66,400	
(FTE Position Changes)		(1.0 FTE)	
State Operations - Other Costs			
Local Assistance			
Aids to Individuals or Organizations			
TOTAL State Costs by Category		\$66,400	\$
B. State Costs by Source of Funds			
GPR			
FED			
PRO/PRS			
SEG/SEG-S		66,400	
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)			
		Increased Rev	Decreased Rev
GPR Taxes		\$	\$
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues		\$	\$
NET ANNUALIZED FISCAL IMPACT			
		State	Local
NET CHANGE IN COSTS		\$66,400	\$
NET CHANGE IN REVENUE		\$	\$
Agency/Prepared By		Authorized Signature	Date
DNR/ Joe Polasek (608) 266-2794		Joe Polasek (608) 266-2794	1/27/2006