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# Do high property taxes influence family forest land *Tenure* decisions?



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### ABSTRACT

Studies have repeatedly documented high property taxes as being a major determinant of a landowner's decision to divest of its forest land. To empirically investigate the relationship between property tax burden and forest land sale activity, property tax data and over 5300 Minnesota forest land sale records from 2000 to 2008 were assembled. Analyses were carried out to identify statistically significant relationships between several measures of private forest land sale activity and forest land property tax burden. The analyses failed to find a statistically positive relationship between the two. Statistically significant negative associations were found between some measures of forest property tax burden and forest land sale frequency, indicating forest land sales activity actually decreased with increasing property tax burden. While high property taxes, no doubt, influence forest land sale decisions, the findings from this study suggest its influence may not be as pervasive as once thought.

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### Introduction

Property taxation is arguably one of the most widely studied areas within the field of forest economics (Amacher, 1997; Butler et al., 2012). Using both quantitative and qualitative research methods,

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studies have cited high property taxes as an important, if not the primary, factor influencing a forest landowner's decision to divest of its land. Consider, for example, the following statements by family forest landowners who participated in focus groups held around the country as part of a national assessment by [Butler et al. \(2010\)](#) to evaluate how state and local taxes influence family forest landowner decisions.

*"If we had to pay the full property tax, there's no way; that would be it. It would not be worth keeping the land. We'd have to sell it or develop it."*

*"Taxes have just skyrocketed because the value of the land. We would all love to keep it. Ultimately, we will have to sell part or all of it, probably all of it, because it's a luxury at this point."*

Such statements are indicative of many forest landowners who, when asked to identify factors influencing their land management and ownership decisions, cite high property taxes as playing a prominent role ([Butler, 2008](#)). Yet it is not possible to know with certainty the degree to which property taxes actually influence a landowner's decision to sell his/her forest land, as this effect is not directly observable by the researcher.

However, real estate transaction and property tax data can be used to examine whether a relationship exists between forest property tax burden and forest land sale activity. In this study, I analyzed property tax data and forest land sale records from Minnesota over a nine year period to determine whether forest property tax burden and forest land sale activity are related and, if so, the nature of the relationship. The study is unique in that it draws on thousands of records of forest land sale transactions that occurred across several hundred taxing districts over many years during a period when forest land values and forest property tax burdens in many taxing jurisdictions were rapidly rising. An extensive review of the literature failed to find a study of this magnitude that empirically documented the relationship between property taxes and forest land sale frequency.

## Previous research

Studies of forest property tax policies and their effects on forest investment, management, and ownership date back over 100 years. The report of President Roosevelt's Conservation Commission in 1909 represents one of the earliest attempts to draw national attention to the problems of forest land taxation ([Gannett, 1909](#)). In 1924, the U.S. Select Committee on Reforestation identified annual property taxes as a major deterrent to private investment in forest land reforestation. The committee's report called for reforming state property tax laws to better align tax burden with timber revenue.

*"Probably the second development of general importance in encouraging private production of timber is an adjustment of the methods of taxing forest-growing lands so as to avoid an undue burden of current taxation." (McNary and Moses, 1924).*

In a seminal study of forest land taxation, [Fairfield \(1935\)](#) described the forest land taxation problem as one where annual taxation discourages private investment in forestry. Fairfield argued for a tax system that better aligns the timing and magnitude of the property tax burden with timber income, yet does not encourage forest land uses and management actions that are contrary to the public's interest in private forests. Fairfield's work provided the theoretical foundation for a considerable body of subsequent research analyzing the impact property taxes have on forest investment and management ([Ellefson, 1989](#)).

Since publication of these initial studies and reports, numerous investigations of forest property taxes have been carried out. Many of these studies focused on the following aspects of forest property taxation: (1) state forest property tax program design, use, and administration (e.g., [Sutherland, 1983](#); [Canham, 1994](#); [Hibbard et al., 2003](#); [Fortney and Arano, 2010](#)); (2) factors influencing enrollment in and the effectiveness of preferential forest property tax programs (e.g., [Dennis and Sendak, 1997](#); [Brockett and Gebhard, 1999](#); [Wagner et al., 2002](#); [Kilgore et al., 2007, 2008](#); [Bagdon and Kilgore, 2013](#)); (3) the impact property taxes have on forest land investment and management decisions (e.g., [Klemperer, 1974, 1978, 1982](#); [Chang, 1982](#); [Field, 1983](#); [Max, 1988](#); [Amacher et al., 1991](#); [Koskela and Ollikainen, 2001](#); [Cushing, 2006](#)); and (4) the influence forest property taxes have on landowner land

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