

## OFFICE OF FISCAL AND PROGRAM REVIEW

Work Session Date: March 1, 2013

To: Members, Joint Standing Committee on Taxation

From: Elizabeth Cooper, Legislative Analyst

### **LD 492, An Act To Increase Reimbursement to Municipalities under the Maine Tree Growth Tax Law**

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**Summary:** This bill, a concept draft, proposes to increase reimbursement to municipalities for property tax losses resulting from the current use classification of land under the Maine Tree Growth Tax Law

#### **Public Hearing:**

##### Proponents

- The sponsor presented the bill. Maine Municipal Association testified in support of the bill and provided an amendment endorsed by the MMA's Legislative Policy Committee.
- *Major points:* Statute requires a 90% reimbursement to municipalities, but due to definition it does not provide 90% of revenue lost.

##### Opposed

- A representative for the Maine Forest Products Council testified in opposition to the bill (a concept draft) as written.
- *Major points:* land in TG places fewer demands on community services, Maine Forest Services report from 2009 examined issue.

NFNA - None

**Additional information:** Briefing sheet on back.

**Fiscal Information:** The preliminary fiscal impact statement was not available at the time this analysis was finalized.

**TREE GROWTH TAX LAW**  
**36 MRSA §571 et seq.**

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**ELIGIBLE LAND**

Maine statutes specify the parameters of the Tree Growth Tax Law (TGTL). Eligibility of land for classification under the TGTL is determined by municipal assessors. To be eligible for classification land must meet the following conditions.

1. It must be 10 forested acres or larger.
2. It must be used primarily for the growth of trees to be harvested for commercial use (with certain statutory exceptions, such as legal restrictions that prevent commercial harvesting that were effective before 1/1/82).
3. There must be a forest management plan updated at least every 10 years.
4. The owner must follow the forest management plan.
5. Land is disqualified if it is larger than 100 acres and the value of a recreational use lease on the land exceeds the tree growth value.

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**VALUATION**

The current use value of land classified under the TGTL is determined by the State Tax Assessor based on the average annual net wood production rate by forest type reduced to reflect the growth that can be extracted on a sustained basis.

1. Values are determined for hardwood, softwood and mixed wood acreage.
2. Values are based on stumpage values.
3. Values are determined by county or region.
4. The discount factor is 10%.
5. The capitalization rate is 8.5%.

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**PENALTY**

TG land withdrawn from classification is subject to a withdrawal penalty. Withdrawal may happen by choice of the landowner or when the use of the land is changed so that the land is no longer eligible. Transfer of ownership alone does not result in a penalty. The new owner has one year to provide a statement to the assessor that a forest management plan is being followed.

The withdrawal penalty is the greater of (1) the constitutional minimum (5 years back taxes differential) or (2) a % of the amount by which the assessed fair market value of the land exceeds the TG value on the date of withdrawal. The % is 30% for the 1<sup>st</sup> 10 years that the land is classified and decreases 1% each year thereafter until it reaches 20% in the 20<sup>th</sup> year that the land is classified.

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**STATE REIMBURSEMENT**

The State reimburses municipalities for a portion of the revenue lost as a result of TG classifications. Reimbursement is calculated on the basis of 90% of the per acre tax revenue lost if the land had been assessed according to the undeveloped acreage used in the state valuation or the local valuation of undeveloped acreage, whichever is less. Reimbursement is adjusted to reflect the computed education cost savings to a municipality resulting from reduced valuation due to TG valuation.