

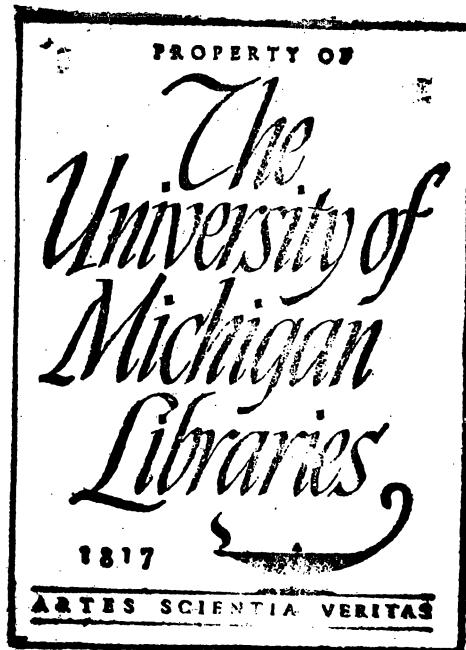
THE FOREST TAX PROBLEM
IN NEW HAMPSHIRE

by
J. Willcox Brown

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by J. Willcox Brown

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THE FOREST TAX PROBLEM IN NEW HAMPSHIRE

For more than forty years forest taxation has been a hotly debated issue in New Hampshire. At almost every session of the Constitutional Convention or of the Legislature the proponents of forest tax reform have locked horns with those favoring the status quo. The sides have been so evenly matched that remarkably little statutory change has resulted. In spite of the longstanding deadlock on the issue, it is still a live question in the Granite State.

This paper is being undertaken with the primary objective of acquainting the writer with the general outlines of the New Hampshire tax situation in preparation for a more comprehensive study of the rural problem in New Hampshire. The tax question will doubtless be an important undertone in the study of the rural towns to be launched by the State Planning and Development Commission this summer.

Since the main purpose of this paper is to familiarize the author with the subject, the paper does not attempt to reach any definitive conclusion on the tax question. What is sought is a clear statement of the problem, an evaluation of the New Hampshire picture against the nation-wide forest taxation scene, and the proposing of desirable lines of further tax research within the state.

I. FOREST TAX PROBLEM IN GENERAL

This paper will be confined to consideration of the property tax aspects of the forest tax problem. The limitation in scope is based on the fact that revenue from second growth forests in New Hampshire has generally been so nearly offset by costs that the federal income tax has entered but little into the problems confronting the forest owner.

Shortcomings of the Property Tax

The better known shortcomings of the property tax, aside from its tendency to be inflexible and regressive, lie in its faulty administration and its inherent disadvantage for deferred yield property. Faulty administration consists primarily of unscientific assessment practices which frequently are arbitrary and inequitable as between owners of comparable properties. Another administrative difficulty is that lax collection practices may permit some owners to be delinquent for extended periods without adequate penalty, while other owners have to bear a heavier levy to compensate for the loss of local revenue.

The theory of the property tax is that the

capital value of property is a reasonable indication of income and therefore of ability to pay. A major difficulty with the property tax is the securing of a practical and equitable means of determining capital value. Theoretically capital value should be based on the net income-producing ability of the property. Actually the immediate sale value of property is more often used as an indication in determining assessed valuation. Sale value may have elements of speculation or capital liquidation involved which do not give a fair representation of net sustained earning capacity.

Determination of assessed value based on prompt market value is particularly disadvantageous in the case of forest properties. The disadvantage derives from the confusion of capital and income in the case of timber values. The trees in a growing forest which can be converted to income as soon as they reach a minimum merchantable size also represent an important part of the capital of the forest owner. Only those trees which have reached a certain size in good condition are capable of yielding the owner rapid increments in value through further growth. The income from harvesting immature forests represents the liquidation of capital, if cutting goes beyond the stage of the removal of thinnings recommended for good forest practice.

Thus determination of capital value by means of "income" from such a liquidation tends to give a value in excess of the true worth of the property based on its sustained earning power.

An additional problem that is sometimes wrongly interpreted as a shortcoming of the property tax itself is excessive reliance on this tax as a revenue source. The current trend in most states is to diversify the tax base and place a much heavier reliance on income and sales taxes than was formerly the case. Where these alternative sources of tax revenue have not yet been adopted, much of the criticism of the property tax is really traceable to the fact that it has a disproportionately large share of governmental cost to bear. This point must always be kept in mind regarding New Hampshire, which as yet has neither a general income tax nor a general sales tax.

New Hampshire is by no means unique in the development of acute interest in the forest tax problem. Pressure for property tax reform became general throughout the forested areas of the country early in the century. Widespread interest led to the inclusion in the Clarke-McNary Law of a clause authorizing research into this problem.

A ten-year study by the Forest Taxation Inquiry led to the issuance of a report in 1935 which was monumental in scope and has been regarded as the authoritative pronouncement in this field.

Agitation leading up to this inquiry had centered around the fact that properties having a deferred yield are at a disadvantage under the general property tax and that this tax had tended to be confiscatory of second growth tracts. Since most of the forest properties in this country are not yet on the annual sustained yield basis, the property tax assessing an annual levy on the value of the property caused great concern among timber owners as well as conservation groups.

The Yield Tax Proposal

The recourse generally sought prior to the release of the Taxation Inquiry findings was some form of special treatment for forest properties. The most popular recommendation became the substitution of a so-called yield, or severance, tax for the property tax. This tax was intended to remove the inherent disadvantage under which a deferred yield property was placed by the property tax through putting the forest property in a separate category and taxing it only by a percentage levy on the income received at the time of timber harvest.

The yield tax received substantial support both from tax authorities and forestry interests. Mr. Fairchild, the head of the Forest Taxation Inquiry, was among those who at an early date advocated the substitution of the yield tax for the prevalent property tax. The tax appears ideal from the forest owner's viewpoint. In the first place it is paid only when timber is felled and the owner has cash with which to make his return. Secondly, the specification of the rate of the tax by law removes the uncertainty as to the proportion of income which will be deducted by the tax and it is assumed that this rate will be set sufficiently low to encourage forest practice.

Attempts to substitute the yield tax led to emphasis by the opposition on its inadequacy in terms of stability of community revenue. Numerous compromises resulted which deviated from the theoretical concept of a tax based solely on income. It became a general concession to restrict the yield tax proposal to the timber value and couple it with an annual tax on the land value of any property. In this hybrid form the combined yield and land tax lost its full value to the timber owner without allaying the fears of other property owners that a disproportionate share of the tax burden would be shifted to them.

In order to minimize the opposition, the initial applications of the yield tax principle as in Michigan were on an optional basis and were encumbered with many limitations. Also they were frequently coupled with special concessions to mollify the opposing interests. Typical of these is the clause in the Michigan law requiring that any property classified for special taxation should be given this privilege only with the stipulation that the owner keep it open to hunting and fishing by the public. As owners came to appreciate the extent of opposition to special treatment for their holdings, they also began to fear that arbitrary changes in the yield tax rate at a later date might also amount to confiscation of their property.

The strongest support for the yield tax principle has developed in cases of extensive areas of cut-over land where little or no revenue from severance was in sight. When compulsory laws under the yield tax concept were finally applied in Washington and Oregon, they were restricted to cut-over land. The reason for this restriction is obvious since owners of mature forests who are contemplating liquidation will sustain a heavier diversion of income to taxes through the yield tax than through the property tax. Likewise the yield tax may be expected

to lose some of its appeal to timber owners (who have benefitted from the exemption during the growing period) at the time when their crops finally become ripe for harvest.

Yet most consequential of all the objections to the yield tax is that it supplants a reasonably stable and predictable source of local revenue with an unpredictable one which could provide a consistent revenue only under conditions of sustained annual production within the governmental unit. The achievement of such production would largely remove the need for the yield tax because the property tax is equitable in principle in cases where annual income is received.

The only way in which local government can be guaranteed sufficient continued revenue under the yield tax is for the state to assume the annual tax-paying responsibilities of the timber owners. Assumption of this role by the state in the form of advances and grants to the local governments in lieu of the property tax on standing timber would in theory be repaid at the time of timber harvest. Actually it does not seem likely that full repayment would be achieved. Even without computation of compound or simple interest on the sums advanced by the state, the yield tax would have to be at a considerably higher rate than has been suggested

in most instances in order to give full reimbursement for the state advances.

Proposals of the Forest Taxation Inquiry

The Forest Taxation Inquiry made a fresh attack on the entire problem. The members of the Inquiry concluded, after exhaustive investigation, that it was imprudent to attack the problem of forest taxation apart from the whole rural tax picture. This conviction certainly seems justified in view of the opposition that had developed to the yield tax as a self-sufficient measure. The Inquiry rated the aspects of the tax obstacle to forestry in the following order:

- 1) high cost of local government;
- 2) faulty administration of the property tax;
- 3) inherent disadvantage of the property tax for deferred yield forests.

The ranking of the inherent disadvantage in last place was intentional and was accentuated in all publications of the Inquiry. Coupling of the forest tax problem with all rural tax headaches was good strategy in that it should tend to secure the support of other taxpayers for some form of special consideration for deferred yield forests concurrently with or after reduction of the total tax burden. Also it was much to the

interest of other property owners that a more sound administration of the property tax be developed.

The fundamental soundness of the Taxation Inquiry recommendations may have been somewhat vitiated by the fact that the committee was unable to work out any modification of the yield tax that they felt would be satisfactory for meeting the third tax obstacle to forestry. Instead they substituted three alternative tax modification schemes to remove the inherent disadvantage of the deferred yield tract under the property tax. These schemes are the adjusted property tax, the deferred timber tax, and the differential timber tax.

The adjusted property tax is so complicated that it could not possibly be administered under the prevalent system of local assessment. The deferred timber tax, though based on capital value instead of on stumpage income at the time of cutting, resembles the combined land and yield tax superficially to such an extent that it is hard for the laymen to distinguish between the two tax systems. The differential timber tax is the simplest of the three proposed alternatives to the yield tax, but it is also the crudest and makes the least allowance for individual variations between properties.

Regardless of the theoretical merit of the alternatives proposed by the Forest Taxation Inquiry,

they have nowhere been adopted even on an optional basis, nor has any widespread support for their adoption been developed. Therefore, further consideration of the possibility of modification in the yield tax is desirable.

A Suggested Modification of the Yield Tax

Professor D. M. Matthews has pointed out that the combined land and yield tax is inequitable in the sense that it does not treat forest tracts growing under different site conditions with different lengths of rotation on an equal basis. The reason for this is that the poorer site taking a longer time to produce a timber crop must bear the annual land tax for a longer period. The annual payments of this tax computed at compound interest will take a larger proportion of the yield from a slower growing forest when coupled with a flat rate severance tax for all forest properties in the state.

However, some form of annual revenue must be available to the local government. Therefore, Professor Matthews has suggested that the annual tax be fixed at a substantial fraction of what it would amount to under the general property tax system. The town would keep a cumulative record of payment of this tax on all properties, computing the total tax with compound interest at a fixed standard rate until the time of crop removal. When the

timber was harvested, the full yield tax would also be computed but the annual tax at compound interest would be credited as a deduction against the yield tax. In this way the balance paid would make the total tax payment for any forest property a uniform percentage of its yield.

This system would seem to have many points to recommend it. In the first place, local governments would be assured of considerable revenue from forest property, perhaps without the necessity of establishing a state fund to reimburse the local governments.

Secondly, forest owners would have a predictable tax burden which was subject to check on the tax records of the local government at any time. Thirdly, the tax would take a reasonably uniform percentage of the income from all forest operations. Finally, the proposal would make use of the support that has been developed for the yield tax principle while meeting some of the major criticisms of that tax.

An Appraisal of Forest Tax Reform

The program for forest tax reform advanced by the Taxation Inquiry was appraised by Dean S. T. Dana in terms which serve as a general critique for a forest tax program. He stated that:

"reduction of the tax load...and fair distribution of that load...through better assessment and collection of the property tax are matters of basic importance. In these respects the interests of forest owners and of other taxpayers are identical, so that cooperation in effecting reforms should not be difficult to obtain."¹

However, he questioned the lack of assurance of better forest management to accompany the tax concessions recommended by the Taxation Inquiry. The determining of forest valuation on a basis of the prevailing management in a region would be a disadvantage to some owners and an advantage to others. It was his opinion that "in regions where prompt liquidation is the practice... it will mean so high a valuation as virtually to preclude the possibility of sustained yield management."²

Dean Dana favored a system of valuation based on the intent of operation of the individual owner. Such a system would mean a higher tax for properties being liquidated and a lower tax for sustained yield properties. He also recommended the use of the taxing power to promote desirable forest practice. The principle of the following recommendation has had application in the recent tax reform efforts in New Hampshire: "I should

¹Samuel T. Dana, "Comments on 'Suggestions for the Solution of the Forest Tax Problem' by Fred Rogers Fairchild." Journal of Forestry 32:139.

²Ibid. p. 141.

favor accompanying such (preferential tax) treatment by regulatory provisions aimed at insuring reasonably satisfactory management, unless such provisions are already in effect as a result of other legislation."³

He also expressed the opinion that the yield tax is a useful tool in second growth forests where the present worth of the property is hard to determine.

Dean Dana concluded by pointing out that no shortcut solution to the forest tax problem is in sight:

"Greater economy and efficiency in government, and better methods of tax assessment and collection, including particularly the valuation of forest properties on the basis of their income-producing ability, are the long and winding roads that offer the most promise of improvement. Given these, the unmodified property tax seems to me a workable instrument for forest properties generally and unquestionably for properties under sustained yield management."⁴

Thus we may summarize a reasonable forest tax program as consisting of three phases which under optimum conditions should all receive attention at once. In the first place, forest owners should unite with other taxpayers to achieve greater efficiency in governmental operation and to secure a reduction in the total tax burden. Secondly, they should combine with other property owners to demand more scientific assessment of all

³Ibid, p. 141.

⁴Ibid, p. 141.

property and more uniform and effective tax collection procedures. Finally, some concession to forest owners could be made wherever deferred yield properties form a substantial part of the forest ownership. A combined land and yield tax with a fairly high annual rate could be adopted, but with the two features acting reciprocally to secure a uniform tax on total income received. This third measure should be reinforced by some form of guarantee that the owners would improve their forest practice in return for the tax concession.

Better forest practice would result in gradual rehabilitation of the tax base. As forest properties were progressively placed under management and income approaching an annual basis was received, the need for the last of the three measures would diminish. A gradual transition could be made back to an annual property tax. Or the reciprocal land and yield tax could be continued without disadvantage even where income was received regularly.

II. NEW HAMPSHIRE TAX SITUATION

The main features of any tax setup are the total load of governmental costs to be borne and the means of distribution of the resulting tax burden over the various potential elements in the tax base. New Hampshire presents a picture of a diverse settlement pattern in rough mountainous country with correspondingly high costs of provision of public services. In contrast to this heavy tax burden, we find a tax base limited both naturally and artificially. The natural resources of the state are relatively meager. Additional restrictions imposed either by the state constitution or by legislative reluctance have confined the state to an even narrower foundation of taxable wealth.

The Tax Burden

The various levels of government in New Hampshire consist of the state, the county, the towns, and the school districts. The total area of the state is 9,302 square miles, or approximately 5,775,360 acres of land area. This area is divided into ten counties which contain a total of 234 organized towns and cities and 14 additional "unincorporated places" in the more isolated mountainous portions of the state. Forty-five years ago there were 235 organized towns and 23 "unincorporated

places." The decline of 10 in the total number of these units is due to the disorganization of the town of Livermore between 1929 and 1938 and to the absorption of nine previously unorganized areas into complete federal ownership within the White Mountain National Forest prior to 1929. There are 241 school districts, which are separate governmental entities but which, for the most part, are coterminous in area with the towns.

The towns have relatively much more importance than the townships in areas outside of New England, since the county is of minor significance except for judicial and welfare functions. Accordingly it is to be expected that the towns should be responsible for expenditure of a larger proportion of total appropriations by the state and local governments than in a state such as Michigan.

Total expenditures of the state and local governments in New Hampshire are not available from any one source. The 1946 report of the State Tax Commission has been utilized to derive the following table, giving direct expenditures and net debt by governmental unit for the calendar year 1945 or for the fiscal year ending June 30, 1946:

<u>Governmental Unit</u>	<u>Payments</u>	<u>Net Debt</u>
State	*	\$1,595,877
Counties	\$ 2,651,699#	1,015,081
Towns	13,848,377#	5,176,759
School Districts	8,593,441	1,416,586
Precincts	<u>265,402</u>	<u>267,934</u>
Totals	\$25,358,919#	\$9,472,237

#Excluding almost \$7,000,000 for repayment of temporary loans anticipating taxes.

*The writer has been unable to isolate a figure for direct disbursements by the State exclusive of amounts paid to local governmental units. The 1946 report of the State Treasurer gives the figure of \$43,234,165 for the 1945-46 fiscal year as the total of disbursements through all State funds including sinking funds. It is suspected that this total includes various types of payments to local units. In contrast the 1947 report of the Interim Commission on Public Finance gives a total of only \$14,000,000 as the estimated budgeted expenditures for the 1946-47 fiscal year. The difference lies in the separate handling of special funds.

Assuming that an increase in population by 1945 would have placed the total population of New Hampshire slightly above the 1940 Census figure of 491,524, the expense of \$25,000,000 for local government in 1945-46 would amount to approximately \$51.00 per capita. The approximate per capita cost of county government would be \$5.30, of city, town and precinct government, \$28.40, and of school district administration, \$17.30.

In New Hampshire most of the revenues for operation of the counties, school districts, and precincts are from taxes levied either by the State or by the towns or by both. The interchange of funds between these various units is too complex for presentation here. The payment to the State of taxes levied by local units has virtually ceased in New Hampshire, with the exceptions of occasional special poll taxes and of a local tax for state-wide supervision of the school system. In 1945-46 these local payments to the State did not quite total \$750,000. They were excluded from the foregoing table of direct local expenditures.

The significant items for this study are the major sources of revenue with which to meet direct local expenditures. These items have been derived from sundry tables in the 1946 report of the State Tax Commission and aggregated to show the totals for all of the local units of government. Approximate totals to the nearest thousand dollars for the calendar year 1945 or the fiscal year ending June 30, 1946 are given:

<u>Source of Revenue</u>	<u>Amount in Thousands</u>	<u>% of Total</u>
Locally assessed taxes	\$19,557	77.5
Local fees, licenses, utilities, etc.	2,785	11.5
Local bond issues, property sales, etc.	1,177	4.5
State assessed, locally dis- tributed taxes	942	3.7
State payments and grants	567	2.2
Federal payments and grants	<u>167</u>	<u>0.6</u>
Total	\$25,195	100.0

The above figures are only a rough approximation, but the fact that the total local revenue is almost identical with the total local expense given previously indicates that they are reasonably accurate. The significant feature of this comparison is the small part played in local revenue by state and federal funds. The state-assessed taxes distributed to the local units are the railroad tax, savings bank and building+loan tax, insurance tax, and the interest and dividends tax. Essentially they are taxes on intangible property, collection of which has been shifted from the towns to the state. Excluding these items the total of state and federal payments and grants comprised barely 3 per cent of total local revenues.

The property tax accounted for \$19,028,000 of the locally assessed taxes in 1945. Thus the property

tax bore 75.5 per cent of the total cost of all forms of local government in New Hampshire in that year. This high proportion is especially striking in view of the tendency to diminishing reliance on the property tax as the paramount source of local revenue in many states.

Another means of expressing the tax burden is to determine the total tax per acre, since figures on assessed valuation and tax rates are unsatisfactory when the assessment ratios are not known. The writer has been unable to discover any published reference to the amount of the property tax per acre on rural land in New Hampshire. Though the reports of the State Tax Commission do not permit direct derivation of such a figure, an attempt was made to isolate figures that would approximate the tax per acre on essentially rural values.

Arriving at a per acre tax on rural values entailed subtracting from the state totals the value and tax attributable to urban property. The 18 cities and towns in New Hampshire classed by the U. S. Census in 1940 as urban were all excluded from the state totals. The New Hampshire Tax Commission reports lumped "improved and unimproved lands and buildings" in one category until 1943, when "growing wood and timber" began to be separately assessed. Mills, factories and machinery, and electric

utilities as well as personal property, have always been in separate categories for assessment purposes.

It is thought that the land, timber and building valuation that was segregated for the 216 non-urban towns and for the unincorporated places in New Hampshire can be considered to represent basically rural values. By dividing the total rural acreage of 5,300,000 acres into the tax attributable to rural land, timber and buildings, a per acre rural tax has been derived. The accompanying table shows the resulting tax per acre for four representative years between 1913 and 1946.

<u>Year</u>	<u>Tax levied on land, timber and buildings in rural towns</u>		<u>Land, timber and building tax as a per cent of total rural prop- erty tax</u>
	<u>Total Tax (in thousands)</u>	<u>Tax Per Acre</u>	
1913	\$2,024	\$0.38	71.2%
1929	5,988	1.13	79.6%
1938	5,991	1.13	76.2%
1946	6,654	1.25	74.6%

These figures cannot be said to represent the tax on farm real estate, since they inevitably include the land and buildings in the villages. However, they are on a uniform basis for the entire period covered. It is surprising that there was no decline in the rural property tax on land and buildings between 1929 and 1938.

Actually the tax on other forms of property in the rural towns increased substantially during that depression period as indicated by the change in the percentage of the total rural property tax attributable to land and buildings. After 1938 the extra load of a State tax, previously included in the levy on property, was removed, but this relief of more than \$1,000,000 annually was swallowed up in local increases in the tax levy, within a few years.

It is of interest to contrast the situation in New Hampshire with that in Michigan. Farm real estate taxes in Michigan were \$0.54 per acre in 1913, \$1.38 per acre in 1929, and \$0.44 per acre in 1938. A special study of the Forest Taxation Inquiry showed that the reasons for this decline in tax per acre during the depression years were:

- 1) lowering of assessed values;
- 2) a constitutional amendment limiting the tax rate to a maximum of 15 mills;
- 3) adoption of the retail sales tax by the state;
- 4) increased state financial aid to local governments.

Local governmental costs did not decline, but other measures reduced the pressure on the property tax and virtually eliminated the demand for special forest tax legislation in Michigan.⁵

⁵Alfred Z. Nelson, Forest Land Taxation in Michigan.

Sources of Taxable Wealth

The chief potential components of the tax base in New Hampshire are income from industry, from recreation and from agriculture. Most recent available figures indicate that their relative importance is in the foregoing order. In 1939 industry ranked first in importance in the state with a net value added by manufacture amounting to about \$105,000,000, as estimated by the U. S. Census. At approximately the same time the State Planning and Development Commission estimated the annual income from recreation at \$75,000,000. The U. S. Census gave a value of \$19,000,000 for agricultural sales in 1940, though this amount was approximately doubled in 1945.

New Hampshire is visualized by most people as an essentially rural state. However, John Gunther recently pointed out that "About 40 per cent of its people are engaged in industry, and though the fact is seldom realized, it is the third most highly industrialized state in the union in proportion to population."⁶

Recreation has received increasing attention as an item in the property tax base. A recent report estimated the value of recreational property at \$50,000,000, or 8 per cent of the total property valuation in the

⁶John Gunther, Inside U. S. A., p. 491.

state. Seventy-five per cent of this value is attached to summer homes. Segregating rural from urban towns as in the preceding section of this paper, the rural 92% of the recreational property accounted for 23% of all rural land, timber and building values in the state and for 17% of the total property values in the rural areas.⁷

The economic situation in New Hampshire can be represented best by reference to maps. A comprehensive presentation embodying the major resources was prepared by the New Hampshire Foundation on the basis of data for 1930.⁸ Several of the maps from the Foundation's study have been reproduced to accompany this report. Though the facts presented are somewhat out of date, the general trends then evident still exist. Also, it is the writer's intention to have this type of map considered for possible use in a pending study.

The first of the maps shows the natural human use regions in the state. This simple map makes clear the division of the state into upland and lowland areas. The more profitable agriculture and nearly all of the industry are concentrated in the lowlands. Subsistence agriculture with heavy dependence either on forest

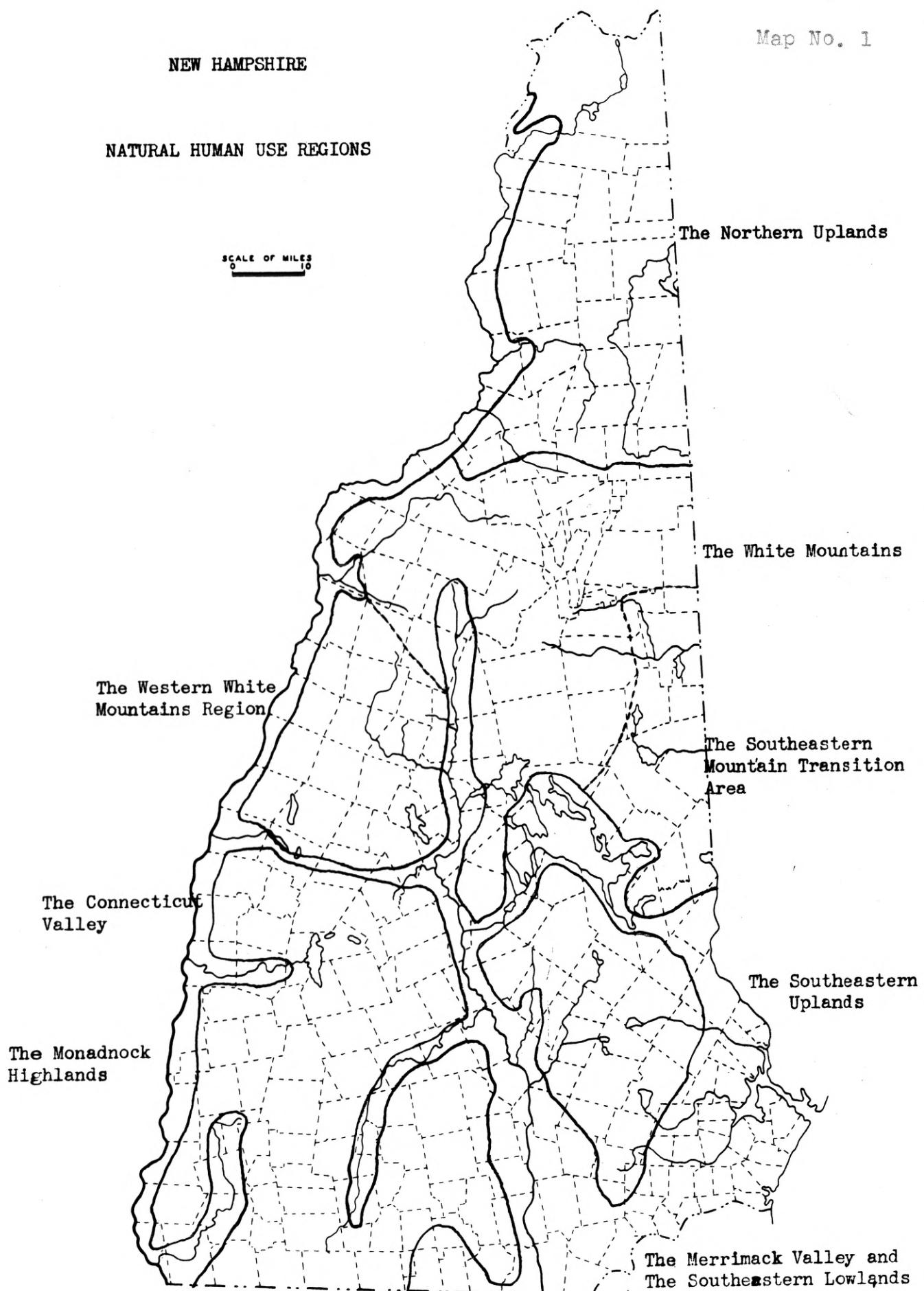
⁷Sydnor Hodges, Recreation Property in New Hampshire, 1945.

⁸Howarth and Huntington, New Hampshire, A Study of Its Cities and Towns in Relation to Their Physical Background.

NEW HAMPSHIRE

NATURAL HUMAN USE REGIONS

SCALE OF MILES
0 10

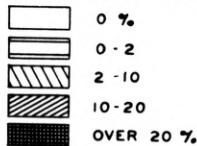
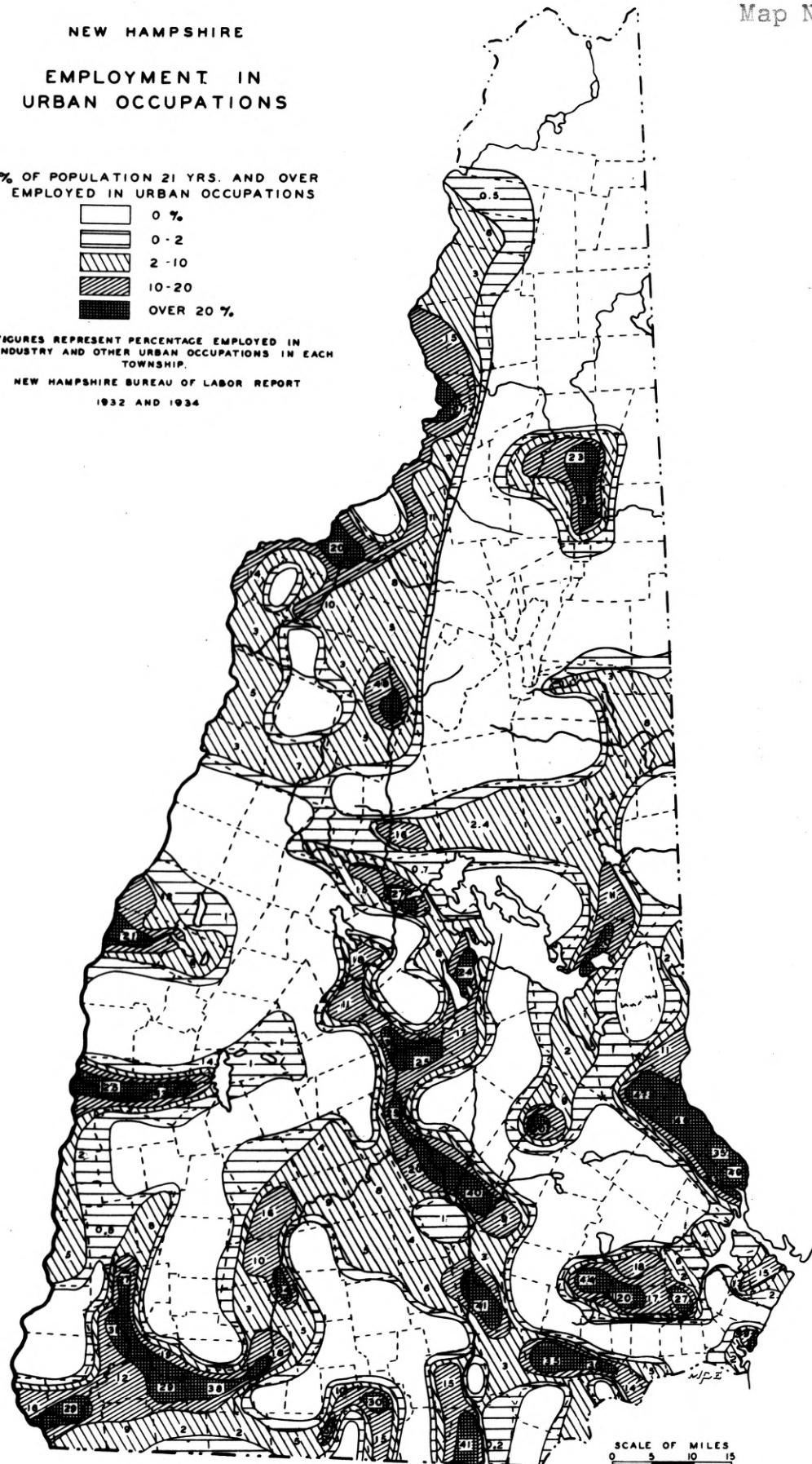


operations or recreational business is characteristic of the uplands.

This situation is portrayed by a comparison of the next three maps with the first one. Map No. 2 shows employment in urban occupations. Much of this employment is industrial and all of it represents values of urban origin. A glance at the map reveals the concentration of urban employment in the valley areas.

Map No. 3 shows summer population in terms of summer residents per 100 permanent residents. This map contrasts rather sharply with the preceding one, in that recreational values become prominent in some upland areas. A notable exception occurs in the case of recreational properties in the lowlands of the Lakes Region of Central New Hampshire. But a closer inspection of the maps discloses that high density of summer population rarely coincides with heavy urban employment. The heavy recreational use of upland areas is further emphasized by a supplementary map showing accommodations for visitors per 100 permanent residents. A reproduction of this map has not been included here but it shows a concentration of commercial recreational facilities such as hotels, summer camps and tourist homes in the White Mountain area of northeastern New Hampshire where other sources of taxable wealth are largely lacking.

NEW HAMPSHIRE

EMPLOYMENT IN
URBAN OCCUPATIONS% OF POPULATION 21 YRS. AND OVER
EMPLOYED IN URBAN OCCUPATIONSFIGURES REPRESENT PERCENTAGE EMPLOYED IN
INDUSTRY AND OTHER URBAN OCCUPATIONS IN EACH
TOWNSHIP.NEW HAMPSHIRE BUREAU OF LABOR REPORT
1932 AND 1934SCALE OF MILES
0 5 10 15

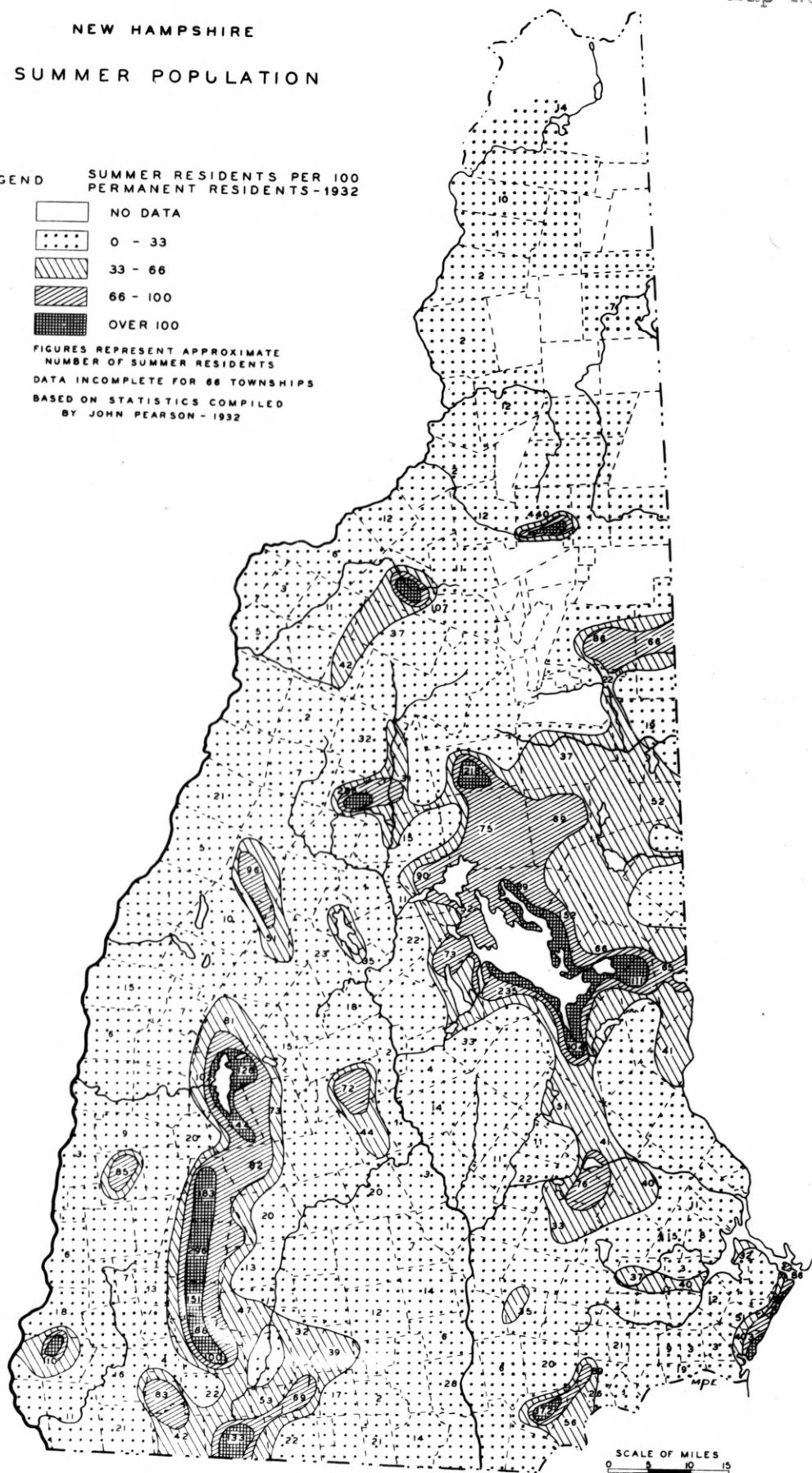
THE NEW HAMPSHIRE FOUNDATION

NEW HAMPSHIRE
SUMMER POPULATION

LEGEND SUMMER RESIDENTS PER 100
PERMANENT RESIDENTS - 1932

- [White Box] NO DATA
- [Dotted Box] 0 - 33
- [Hatched Box] 33 - 66
- [Cross-hatched Box] 66 - 100
- [Solid Black Box] OVER 100

FIGURES REPRESENT APPROXIMATE
NUMBER OF SUMMER RESIDENTS
DATA INCOMPLETE FOR 68 TOWNSHIPS
BASED ON STATISTICS COMPILED
BY JOHN PEARSON - 1932



SCALE OF MILES
0 5 10 15



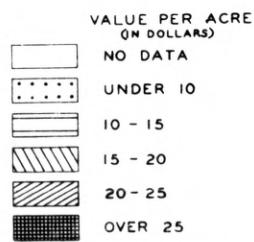
THE NEW HAMPSHIRE FOUNDATION

Map No. 4 gives farm land value in dollars per acre. Here we revert to a pattern generally resembling the urban occupational map. There is somewhat more of a tendency for high farmland values to be concentrated in the southeastern lowlands and the lower Merrimack Valley. However, the contrast between farm values in the lowlands and the uplands holds in relative terms throughout the state.

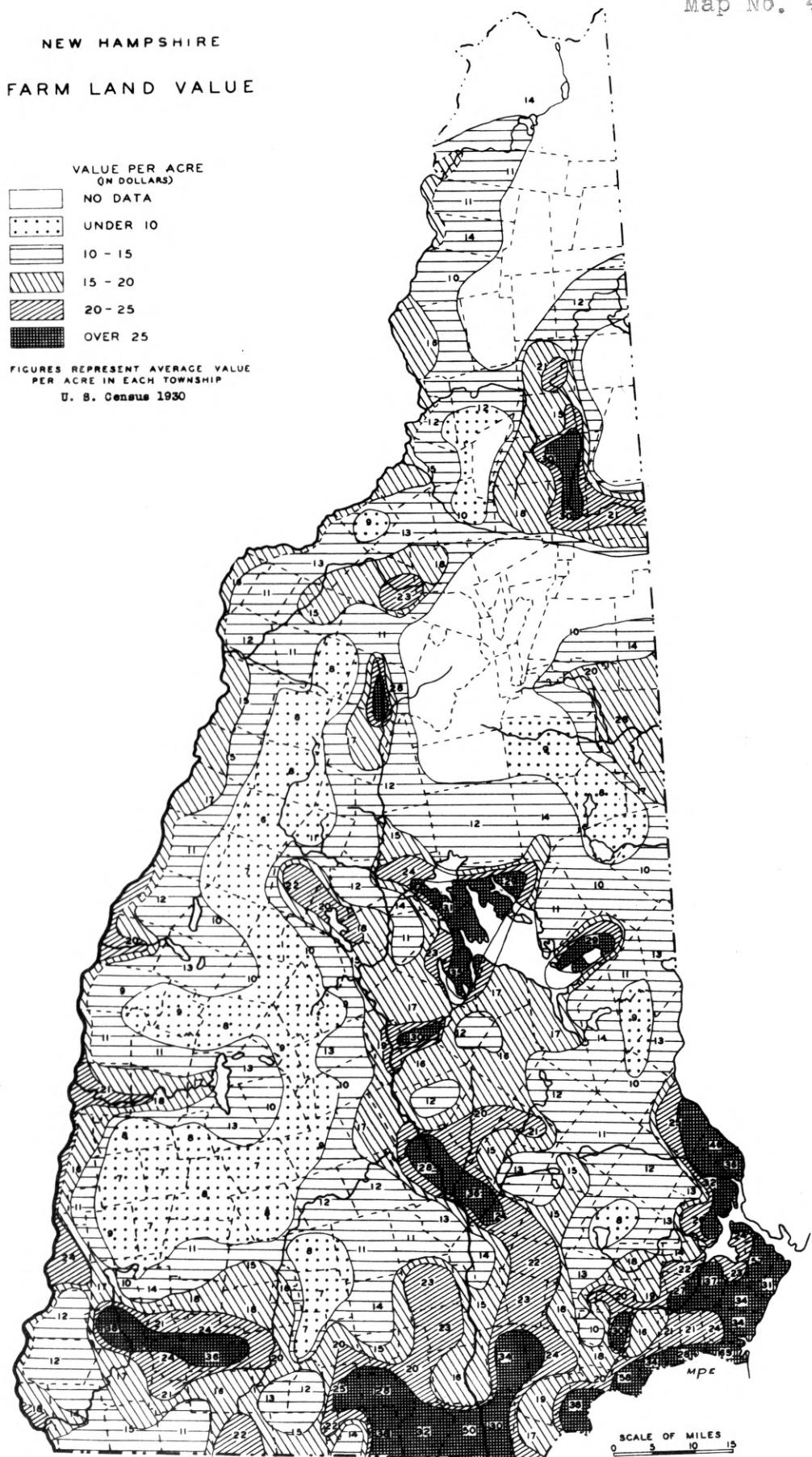
Population is an additional source of wealth worthy of careful inspection in any consideration of the tax base. When the population falls below certain minimum levels, available natural resources cannot be properly converted to wealth through harvesting and processing. It is not probable that New Hampshire has yet reached any such danger point through rural population decline. In the past the problem has been more one of finding sufficient means of productive employment for the residual rural population.

However, the hoped for rehabilitation of the rural tax base through expansion of recreational activity and the restoration of wood product industries accompanying a forest management program might result in a situation where population and resources were out of balance in the opposite direction. This possibility lends added

NEW HAMPSHIRE
FARM LAND VALUE



FIGURES REPRESENT AVERAGE VALUE
PER ACRE IN EACH TOWNSHIP
U. S. Census 1930



SCALE OF MILES
0 5 10 15



THE NEW HAMPSHIRE FOUNDATION

weight to any program seeking to provide reasonable stability of rural conditions at the present level.

Map No. 5 shows the trend of population expansion or decline in the respective areas of the state. Again the contrast between the lowland and upland areas is striking. A map showing population density per square mile which has been omitted from this report gives a similar picture of the concentration of population in the valleys. It should be pointed out that while most of the area of the state has been experiencing a decline in population, the total population of the state has been increasing rather consistently for the past 100 years with the exception of a slight drop in 1870. Rural population on the other hand fell consistently from 1850 to 1920, levelled off and then rose slightly from 1930 to 1940.

The repercussions of population decline on taxable wealth in one direction and on per capita costs of local government in the other direction are so pronounced that this one characteristic has been used to distinguish declining from non-declining towns in New Hampshire. It was probably inevitable that the hill towns should undergo a period of decline after passing through the subsistence and exploitation stages in economic development. It is not to be expected that

NEW HAMPSHIRE

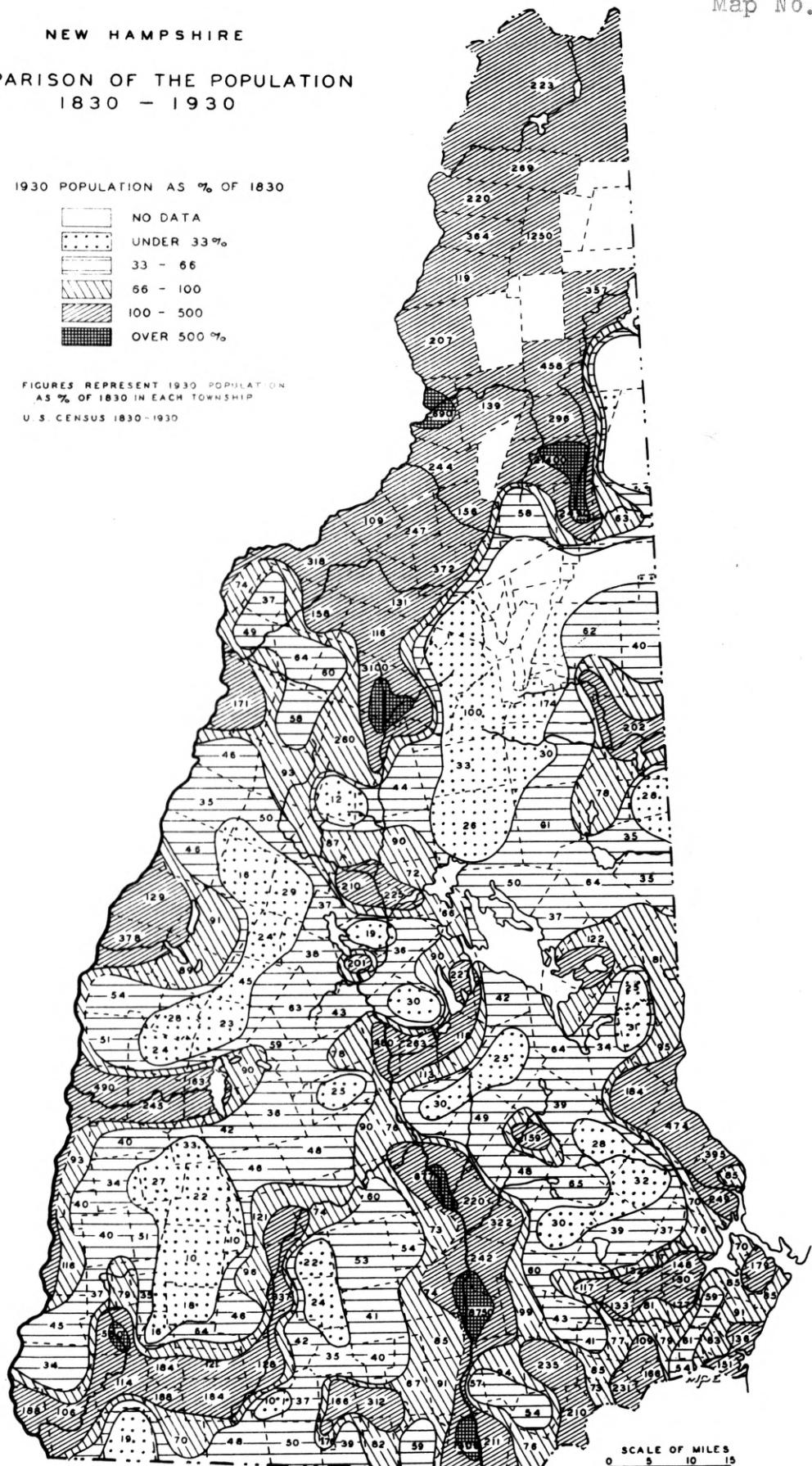
COMPARISON OF THE POPULATION
1830 - 1930

1930 POPULATION AS % OF 1830

- [white square] NO DATA
- [dotted square] UNDER 33%
- [light hatched square] 33 - 66
- [medium hatched square] 66 - 100
- [dark hatched square] 100 - 500
- [solid black square] OVER 500%

FIGURES REPRESENT 1930 POPULATION
AS % OF 1830 IN EACH TOWNSHIP

U. S. CENSUS 1830-1930

SCALE OF MILES
0 5 10 15

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many of them will reach their peak levels again even after the rehabilitation process is well advanced. Thus the process of decline may be viewed historically as an essential stage in adjustment to a sustained level of living. The problem is to determine that level for any given town and, once it has been determined, to devise and execute the necessary means of attaining it.

With this preamble, Map No. 6 is presented, showing town types as classified by the New Hampshire Foundation. This map indicates whether the towns are declining or non-declining and also shows their major sources of wealth. In a sense this map is a composite of all of the preceding maps. It is a map worth keeping up to date as a record of the cumulative effect of past trends. It can also serve a useful role in planning for the future.

At this point it is desirable to inject a note of caution as to the recreational element in the tax base. The economic concept of wealth, strictly interpreted, does not permit inclusion of purely recreational values. Recreation more properly falls in the classification of provision of services rather than production of goods. Recreation can therefore be viewed as a means of a wider distribution of wealth produced from other sources.

NEW HAMPSHIRE

TOWN TYPES

TYPES OF TOWNS

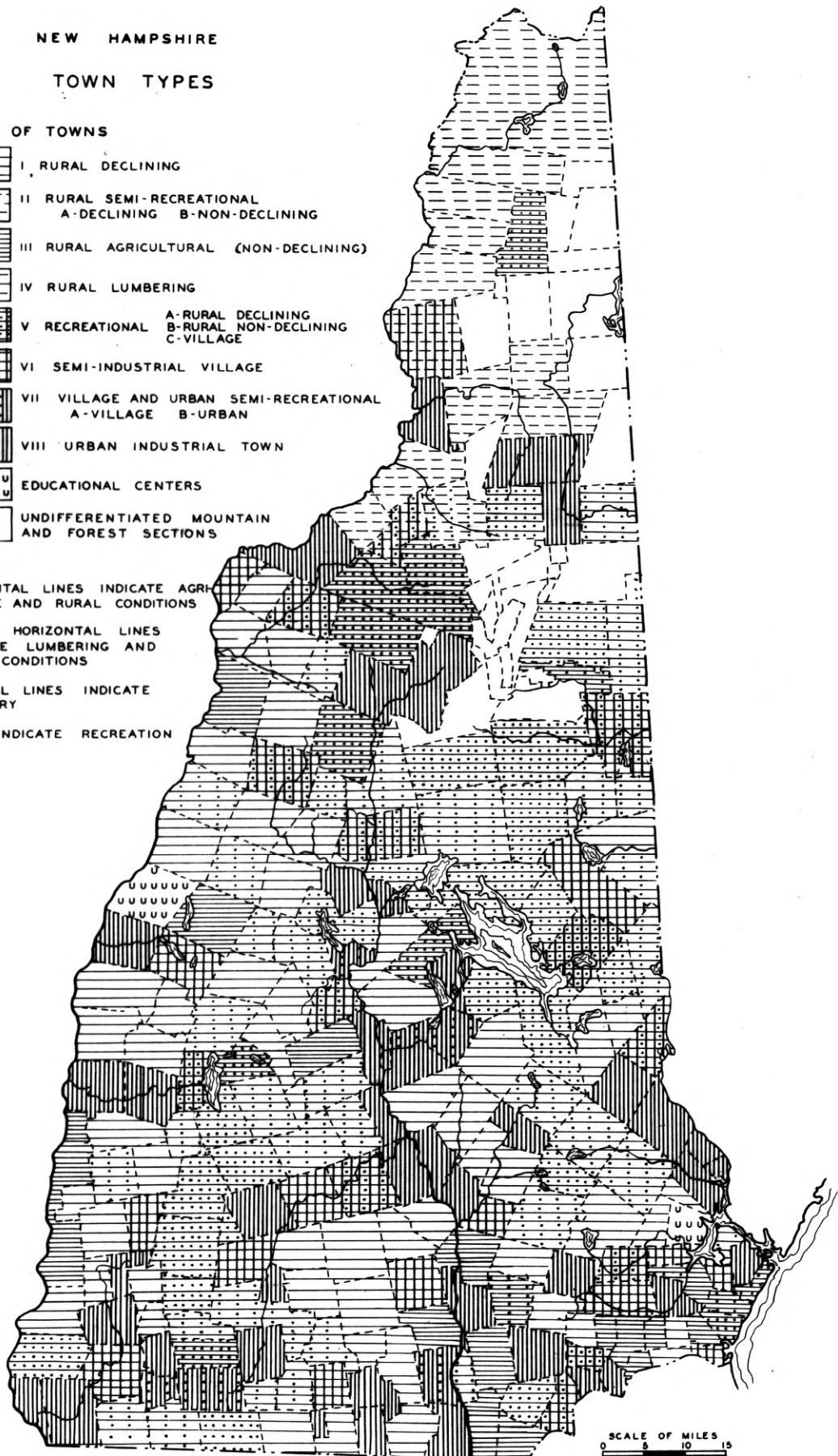
- I. RURAL DECLINING
- II. RURAL SEMI-RECREATIONAL
A-DECLINING B-NON-DECLINING
- III. RURAL AGRICULTURAL (NON-DECLINING)
- IV. RURAL LUMBERING
- V. RECREATIONAL A-RURAL DECLINING
B-RURAL NON-DECLINING
C-VILLAGE
- VI. SEMI-INDUSTRIAL VILLAGE
- VII. VILLAGE AND URBAN SEMI-RECREATIONAL
A-VILLAGE B-URBAN
- VIII. URBAN INDUSTRIAL TOWN
- EDUCATIONAL CENTERS
- UNDIFFERENTIATED MOUNTAIN
AND FOREST SECTIONS

HORIZONTAL LINES INDICATE AGRICULTURE AND RURAL CONDITIONS

BROKEN HORIZONTAL LINES
INDICATE LUMBERING AND
RURAL CONDITIONS

VERTICAL LINES INDICATE
INDUSTRY

DOTS INDICATE RECREATION



SCALE OF MILES
0 5 10 15

Recreational values were almost completely lacking in New Hampshire 100 or more years ago, as New Hampshire was emerging from the subsistence phase of its economy. It is certainly to be hoped that the foreboding trend of world affairs will not force any area that has progressed beyond the subsistence stage back to that lower level. Yet this contrast may serve to emphasize the extent to which recreational values are dependent upon the reasonably smooth functioning of a surplus economy. Other sources of taxable wealth also have undergone fluctuations in accord with current economic conditions. Nevertheless it seems reasonable to predict that recreational values may be subject to more marked fluctuations than other values with the soaring or diving of the business cycle.

Artificial Restrictions on the Tax Base

The requirement of proportional taxation in the constitution of New Hampshire has been interpreted as forestalling the application of a graduated income tax. The excessive load on certain stipulated items of property and the presumed double taxation of certain intangibles resulted in a substantial clamor for constitutional tax reform on this score. However, the efforts of those interested in securing constitutional authorization for a graduated income tax have been frustrated to date.

As an alternative, an act substituting for the property tax on intangibles a flat rate tax on income from stocks and bonds was passed in 1924. This so-called interest and dividends tax has a uniform \$200 exemption. It is collected by the State Tax Commission and distributed to the towns where the taxpayers reside. The law was commented upon as follows in the 1925 report of the State Tax Commission:

"We are receiving letters constantly from other states making inquiries as to the law, and in some cases asking how a person of another state may become a resident of this state for tax purposes. So it may be seen that this law is looked upon with favor by those who have had to pay much heavier taxes on the same sort of income in other states. We may look forward to a substantial increase in the amount of tax from residents of other states owning property in this state who will elect to make this state their home."

In spite of this optimistic forecast, the interest and dividends tax in 1946 only had risen to approximately \$660,000 from an initial return of about \$220,000 for a fractional (2/3) part of 1924. Long before the present day, it was necessary for the state to seek other means of broadening the tax base for state revenue purposes.

A major source of revenue for the state government had been the so-called "state direct tax." Until

1939 the discrepancy between state appropriations and state revenue from other sources was handled by distributing the deficiency among the various towns and cities in accord with an equalized valuation periodically recalculated. The deficiency was met by adding to the local property tax levies. During the depression years this extra burden on property above the cost of local government culminated in a major tax crisis.

A special report of the State Tax Commission in 1937 recommended a general program of tax reform. The legislature chose the discontinuance of the state tax and the substitution of a tobacco tax as an easier course. Revenue from the tobacco tax is reinforced by taxes on the race track at Rockingham and by mark-ups on liquor in the state liquor stores. Together these three sources produced \$6,500,000 of state revenue in 1946. This makes up a substantial part of the relatively unrestricted funds of the state. By recent constitutional amendment, all income from gasoline road tolls and motor vehicle registrations cannot be spent except for highway purposes. During the depression, revenue from liquor and racing was less than one-fifth of its 1946 volume. It is feared that these sources may again shrink when needed most acutely.

New Hampshire has not even had a property tax which applied to all classes of property. Only those property classes which are specifically designated by statute are subject to taxation. Mr. George H. Duncan, currently a New Hampshire tax commissioner, has pointed out that "there are innumerable classes of property untaxed in New Hampshire which are taxed in other states."⁹ The newer types of property tend to be neglected while older forms of property are saddled with excessive loads.

This situation holds for industrial concerns as well. The railroad tax, bank taxes, etc. are well established, but the present franchise tax on electric utilities is considered inadequate.

A sales tax for New Hampshire has been widely recommended, but advocacy of this tax has been tempered by legislative recognition that it would be largely regressive in nature. Therefore, the line of reasoning has been that a sales tax should not be enacted until such time as constitutional amendment would permit coupling of the sales tax with passage of a graduated income tax. The situation has been well summarized in the recent report of a legislative commission:

⁹T. V. Kalijarvi, State and Local Government in New Hampshire, p. 18.

"Efforts to inaugurate an income tax have been fruitless, because under the Constitution it was impossible to have a graduated tax. A sales tax has been impossible because of political pressure against it. However, no tax system in New Hampshire will ever be satisfactory until the basis of the state's revenue is a sales tax and an income tax, together. Separately, they are not satisfactory because the revenue from an income tax fluctuates so greatly, depending on the prosperity of the times, and also because the income tax affects only a limited number of taxpayers. The sales tax alone, puts too great a burden on the lower income group, and not enough on the higher. Working together, they spread the tax base more equitably among all classes of taxpayers. The time is coming when New Hampshire must adopt these two taxes simultaneously. If this were done, the state would secure a stable revenue which would lend itself more readily to sound budgetary control and allow the use of the windfall revenue from the race track for capital expenditures and the retirement of debt. It would allow the continuation of the present pay-as-you-go policy."¹⁰

The important consideration from the forest tax standpoint is that the load on property taxpayers generally and forest property owners in particular cannot be appreciably lightened until the state has more ample tax resources with which to offset any local deficiency.

This was expressed by the interim commission as follows:

"The state and its various political subdivisions are so dependent on each other for their well-being that any question of state finances necessarily involves the towns and cities. Their condition at the present

¹⁰ Report of the New Hampshire Interim Commission on State Finances, 1947, pp. 27-28.

time is reflected in rising tax rates, caused by the high cost of government. Unless the towns and cities get immediate help, the burden of local taxation will be even greater than it is today."¹¹

It is well to keep in mind that three-fourths of all revenues for local government in New Hampshire are now obtained from the property tax.

Legal Aspects of Property Tax Operation

The property tax is firmly entrenched in the tax structure of the state through a constitutional clause providing that all assessments must be proportional and reasonable. For years the following wording of an article in the state constitution made impossible the separate classification of forest lands for taxation purposes:

"Part Second.

Art. 5. And, further, full power and authority are hereby given and granted to the said general court...to impose and levy proportional and reasonable assessments, rates, and taxes upon all the inhabitants of, and residents within, the said state, and upon all estates within the same..."

Repeated efforts to modify this constitutional clause finally resulted in the passage of an amendment in 1942 which allowed special assessment and tax treatment of growing wood and timber. The amendment added a new section to article 5, which section read as follows:

¹¹ Ibid, p. 38.

"For the purpose of encouraging conservation of the forest resources of the state, the General Court may provide for special assessments, rates and taxes on growing wood and timber."¹²

The requirement that has long stood in the statutes of New Hampshire is that "The selectmen shall appraise all taxable property at its full and true value in money as they would appraise the same in payment of a just debt due from a solvent debtor." This legislative stipulation is generally considered to have been as serious an obstacle to sound forest taxation as the constitutional requirement of "proportional" taxation.

Following the amendment of the state constitution in 1942, the 1943 Legislature made a concession in the direction of separate tax treatment as authorized by the constitutional amendment. To permit a period of deliberation before providing for a completely separate classification and treatment of timber stands, the General Court passed an act entitled "Chapter 144, An Act Relating to the Assessment of Growing Wood and Timber." The first section amends the clause of the previous statute pertaining to "invoices" to add the value "of growing wood and timber separately from the land" as an item to be recorded separately by the selectmen. The second clause

¹² Journal of the Convention to Revise the Constitution, September, 1941, p. 94.

of the act reads as follows:

"2. Interpretation. The change in method of assessment of real estate by separating the assessment of growing wood and timber from that of the land on which it stands, as provided in section 1, shall be deemed to be for the purpose of information and the selectmen shall not increase the total valuation of the property unless it clearly appears from other facts that such increase is justified."

The third section requires the "owner's estimate of the amount and kind of merchantable standing wood and timber" on land owned either by him or by another.¹³

As stipulated in the law, the first separate assessment of timber in 1944 did not increase the combined valuation of timber and land and buildings, with which timber had previously been included.

The 1944 assessed valuation of growing wood and timber totalled \$10,834,025. A slight but steady decline in this valuation has occurred over the four-year period since the new law has been in effect. The 1947 valuation of growing wood and timber totalled \$9,858,677. The decrease in valuation is attributable to heavy cutting operations in the war and post-war boom. One of the tax commissioners has expressed the opinion that "while it generally is agreed that valuation of this type of property as set by local assessors is below real value...since 1944, valuations of timber in general have been increased

¹³Laws of the State of New Hampshire - passed January Session, 1943, p. 205.

(toward full assessment) by the assessors.¹⁴ This indicates that if it had not been for recent "rapid denudation," assessed valuation of growing wood and timber would have increased during this four-year period.

During the same period the average local tax rate has increased steadily from \$3.07 to \$3.71. This increase in rate has more than offset the decrease in assessed valuation so that the total tax on timber has risen consistently from \$339,551 in 1944 to \$370,443 in 1947. The distribution of timber in the towns is far from uniform throughout the state. The single town of Pittsburgh, which is the largest and most northerly town in the state, had a timber valuation in 1947 of slightly more than \$1,000,000, or more than 10 per cent of the total timber valuation in all of New Hampshire.

In order to arrive at timber valuation figures for the rural towns of the state, the writer has again separated the rural and urban towns. The eighteen cities and urban towns in the state had a timber valuation of only \$340,000 in 1946 out of a total timber valuation in that year of about \$10,228,000. The figure of nearly \$10,000,000 of timber valuation in the rural areas represents 5 per cent of the rural valuation of land, timber and buildings. This rural timber valuation amounts to

¹⁴George H. Duncan, in a letter to the writer, March, 1948.

3.7 per cent of the valuation of all rural property. Thus in 1946 rural timber valuation was less than one-fourth of rural recreational valuation. A further decline in timber valuation is in prospect with the operation of "peckerwood" mills unchecked throughout the state.

A decline in assessed valuation attributable to timber has been recorded over a period of nearly twenty years. In 1930 a careful estimate indicated \$1,100,000 as the probable tax based on the valuation of timber then standing. Further studies in 1937 indicated a probable tax of \$550,000 attributable to timber valuation. Decline in stumpage value was a contributing factor in the shrinkage of assessed timber valuation. In 1938 the hurricane caused wholesale destruction of standing timber values. It has been estimated that by 1939 the tax attributable to live timber valuation had been reduced to \$175,000.¹⁵ This seems to be a reasonable estimate when compared with the tax attributable to timber value in 1944. This tax of about \$340,000 could easily represent approximately the same volume of standing timber because of the increase in stumpage value which may well have doubled during this period.

Against such a background it is surprising that the problem of rural tax delinquency has not been more acute. No such large-scale tax reversion as has been

¹⁵George H. Duncan, "Timber Taxation" in Forest Notes.

typical of the cut-over regions of the Lake States has occurred in New Hampshire. The state has not even found it necessary to develop a streamlined policy for acquisition of tax-deeded lands as in Michigan. In 1945 at the end of the year uncollected taxes of the cities and towns amounted to \$1,636,000 out of a total of nearly \$19,000,000 of taxes. In the same year \$1,446,000 of delinquent taxes with interest from previous years was collected by the cities and towns. Thus it seems likely that only a minute proportion might go permanently unredeemed. For 1945 unredeemed taxes of the cities and towns were listed as \$177,000. However, previous tax sales amounting to \$162,000 were redeemed in the same year.¹⁶

The tenacity with which private owners have clung to their lands outside of the boundaries of the White Mountain National Forest has been commented upon by several authorities over a long period. A special study of rural tax delinquency made in 1934 revealed that even during the depths of the depression, tax delinquency was at a remarkably low ebb in New Hampshire compared with other heavily cut-over states. The report states that:

"Previous to 1930 over 90 per cent of all taxes assessed by towns and cities were collected within the year in which they were assessed. This declined to 81 per cent in 1933, which is conceded to be better than other parts of the

¹⁶ New Hampshire State Tax Commission, 1946 Report.

country. However, in this same year, the current collection plus back taxes collected exceeded the total levy, and the increase in uncollected taxes was small. This would indicate a decided improvement.¹⁷

Obviously there are unknown factors in the tax situation in New Hampshire, which merit further study before the undertaking of radical change in the property tax structure. In the Lake States alleviation of the property tax load was prompted largely by the fact that the tax burden appeared to be an important factor in forcing cut-over lands out of private ownership.

Special Forest Tax Legislation

In spite of the fact that no general forest tax laws have yet taken effect in New Hampshire, there are several special laws intended to create a favorable setup for forest management that have been enacted since 1900. At the turn of the century there was general concern over the abandonment of farm lands that had been cleared. In an attempt at reforestation of such tracts, a rebate law was passed in 1903 and modified in 1925. The essential provision of the law is that an owner of a planted stand of softwoods may apply for an annual rebate on his taxes if the value of his land does not exceed \$25 per acre.

¹⁷H. C. Grinnell, Rural Real Estate Tax Delinquency in New Hampshire, p. 5.

The rebate amounts to 90 per cent of the taxes during the first ten years, 80 per cent during the second decade, and 50 per cent during the third decade. The owner must renew his application to the assessor each year. Applications under this law have been very limited.¹⁸

In 1923 another limited type of special treatment was offered to forest owners through the so-called classification law. This law was modified in 1925. It provides that not more than 100 acres per owner in a given town may be classified for exemption of tax on standing timber until the trees are cut, on condition that the value of the timber must not exceed \$25 per acre, but is so stocked as to promise a minimum future yield of 25,000 feet per acre. The law has a further restriction that the owner must reduce the volume of timber when in the judgment of the assessor it exceeds 25,000 feet. There is no true yield tax but timber is taxed on its value in the year when cut at the same rate as other property. Because of the complexity of this law, it is understandable that only 198 of those eligible under the law had classified stands comprising 0.2 per cent of the total private forest area in the state, amounting to 8,431 acres by 1929.

¹⁸Fairchild et al., Forest Taxation in the United States, p. 376.

A third form of special forest legislation provides that an owner may deed not more than 25 acres adapted for forest growth to the state, reserving the right of reconveyance within ten years. The property is exempt from tax while in state ownership, is put under management by the Forestry Commission and may be reconveyed at cost of improvements with interest at 4 per cent, less profits on sale of forest products. This law has received almost no use.

In summary, the special forest tax laws in New Hampshire have played an inconsequential role in filling the need for a substantial reduction in the tax load on deferred yield properties.

III. HISTORICAL SKETCH OF TAX REFORM EFFORTS IN NEW HAMPSHIRE

A review of the struggle for forest tax reform in New Hampshire can be divided into two main categories according to the approach of the participants. First of all, the agitation for tax reform has been based on a number of studies conducted by forest agencies. Secondly, the educational efforts of timber owners and conservationists can be coupled with the official deliberations of state agencies concerned with the problem of taxation and public finance. Only the first of these categories will be treated in any detail, since the record of the second is so extensive as to be beyond the scope of this paper.

Studies and Recommendations of Forestry Agencies

Forty-five years ago a study of forest conditions in New Hampshire was undertaken for the state by the federal forestry service at the request of the legislature. First consideration in this survey was given to the White Mountain area because of the agitation for creation of federal forest reserves in that area. The study of the northern part of the state, begun in 1903, was supplemented by a similar survey of southern New Hampshire in 1905. The report resulting from this survey

included a section on the question of taxation. Several items from this statement by Louis Margolin of the U. S. Forest Service are worth quoting at this point to show the careful consideration being given to the forest tax problem at that early date.

"To attain the greatest good with the least amount of sacrifice, a system of taxation must conform to certain well-known principles.

1. It must be just and equitable; in other words, it should be fairly apportioned.

2. It must not impose an undue burden on the person taxed. Every tax should be levied at the time and in the manner in which it is most easily and conveniently paid. It is not fair that a person should pay a tax on a piece of property before he derives an income from it. The state of New Hampshire recognized this principle when it enacted the law that 'real estate shall be taxed independently of any mines or ores contained therein until such mines or ores shall become a source of profit.' (Chapter 55, section 4 of the Public Statutes of the State of New Hampshire, and General Laws in force January 1, 1901.)

3. A tax must not seriously impair the source of income. If a tax works in such a way as to cause the income-bearing property to disappear, the state loses a source of revenue for the future.

4. Finally, it must be easily levied and collected, or it will lead to confusion and evasion...

"The present tax system in New Hampshire violates three of the four principles of taxation just given and makes no allowance for the peculiar character of forest property. In fact, forest property is generally taxed

higher than other kinds of property, sometimes as high as thirty per cent of its gross income, as shown by the table on page 207.

"The present method of taxing forests often forces the owner to cut his timber, whereby the state loses a source of revenue. The proprietor is never certain how high his land will be assessed. There is an element of uncertainty which interferes with a proper system of management..."

"The following is offered as an ideal system for taxing forests:

Tax the gross income from forest property at the time when the income becomes available; that is, when the forest is cut. The tax rate should be determined upon before the new method becomes operative, and should be changed only after giving notice several years in advance.

The amount of lumber cut in the entire state does not vary greatly from year to year, while the amount cut in any town or county is not so uniform. To avoid wide fluctuations in the amount of revenue derived by towns and counties, the forest tax should be collected by the state, and apportioned among the smaller political divisions by state authorities.

A small annual tax on the value of the land may be levied, but this tax should be deducted from the final income tax, and in making such deductions the tax already paid should be carried forward with compound interest at a reasonable rate to the time when the final tax is paid."¹⁹

¹⁹ New Hampshire Forestry Commission, Biennial Report, 1905-1906, pp. 204-206.

It is particularly noteworthy that the principles and recommendations given at this early date actually provided for reasonable stability of local government and also met many of the theoretical objections to the severance tax as subsequently proposed for the state.

In 1908 the growing interest in the tax problem prompted the State Forestry Commission to enter into another cooperative agreement with the Forest Service, this time to be concentrated on the twin obstacles of taxation and fire. An intensive study was conducted by a representative of the Forest Service in which the tax history of more than 200 separate forest tracts was investigated. The resulting report made a separate analysis of conditions in the woodlots in southern New Hampshire, the woodlots in northern New Hampshire, the wild lands in organized towns, and the wild lands in unorganized towns. Conditions generally applicable to all of these areas were summarized as follows:

"The general conclusions which may be drawn from this investigation are:

(a) The actual tax burdens imposed on forest lands of the same value are not equal or 'proportionate' as the state constitution requires, either as between the different towns or different taxpayers in the same town.

(b) In general the law has not been strictly enforced in the past, as is shown by the fact that little or no land reverts to the towns because of unpaid taxes. Sometimes an owner believes that the tax is more than the land can stand, but in such cases a

purchaser has always been found. This is due to the fact that growing timber has usually been assessed much below its actual market value, and the burden of taxation thus has been lightened so that the land can carry it.

(c) In the search for revenue to meet the financial necessities of the towns a strong tendency has recently developed to enforce the law more rigidly, and valuations have in many cases been increased with startling rapidity. This rapid increase in valuation cannot be long continued and applied to cut over land after the owner has been forced to cut, without causing abandonment. Such has been the result of the policy in California, and in Michigan, where the state has acquired and owns a million and a quarter acres of abandoned tax lands, and to a less extent in other Lake States.

(d) As between the farmer and the millman to whom he sells his woodlot, taxes have in the past been very low to the farmer while the timber was in his hands and some attempt has been made to appraise it more nearly at its actual value (or rather to approximate the selling price, which is often unduly low) when it is bought for lumbering. Usually, however, it is cut at once and the town collects taxes at the new appraisal but one year if at all. The consequence is that the timber escapes its fair charge of the public burdens.

(e) The present law, granting a percentage exemption to owners who have planted their land to timber, is not taken advantage of to any extent and is wholly inadequate. Most of the land upon which there is growing timber is seeded naturally, and therefore does not come within the law. The exemption ceases wholly in thirty years, at the time when it is to the advantage of the towns as well as of the owner, to allow the timber to mature further. Moreover tax exemptions are of questionable expediency and excite hostility to those taking advantage of them."²⁰

²⁰New Hampshire Forestry Commission, Biennial Report, 1907-1908, pp. 51-52.

The report pointed out that serious consideration of the forest tax situation had not previously been necessary because of the low value of forest land generally and the availability of large reserves of mature timber ready for exploitation. In anticipation of the needed transfer to a timber-growing economy, the report emphasized the necessity of fundamental change in the taxation system. A proposed statute providing for optional separate classification of timber land was included in the report. The statute would have been limited to stands three-fourths under 10 years of age and would have provided for a yield tax of 15 per cent. Furthermore, to prevent tax avoidance, through classification as forest lands, of tracts held primarily for other purposes, it was recommended that the law be restricted to lands found by the selectmen "to be chiefly valuable for the production of wood and timber."

In 1912 Mr. John H. Foster, who had conducted the foregoing study for the U. S. Forest Service, wrote an article on developments in the tax picture accompanying the creation of a permanent state tax commission. He stated that:

"This commission within the past few months has...directed that all property shall be assessed at its full value. By so doing,

it has brought about a crisis in the matter of forest taxation, as subsequent events are bound to show."²¹

He emphasized that ineffective administration of the property tax had avoided prior crises, and that the lenient application of the law had reduced the desirability of applying a new system to the mature forests. Three alternative methods of solving the problem for young forests and those which might be established subsequently were the legalized assessment of a portion of the actual sale value, or assessment on the expectation value or the yield tax.

The 1908 study was supplemented in 1914 with an investigation of changes which had occurred in 126 of the lots in the previous study. The supplementary study revealed the following significant facts:

- "1. That 51.7 per cent of the woodlots under consideration have been cut off since 1908.
2. That the average increase in assessed valuation of all the lots is 153.2 per cent.
3. That the average of present assessed values compared to actual values of all the lots is 72.7 per cent."

On the basis of these facts it was concluded:

- "4. That an increase of assessed valuation in excess of 50 per cent of the actual values on poorly growing lots or in excess of 75 per cent on good growing lots will generally cause a loss to the owner unless he cuts the timber at once and will always cause a loss to the town if he does.

²¹John H. Foster, "Taxation of Forest Property in New Hampshire." American Forests 18, p. 470.

- 5. That abrupt increases should not be made. They cause the owner to cut his timber regardless of his financial advantage."²²

No recommendations for legislative action accompanied this report because of the impasse which had developed on the question of constitutional change.

In 1928 the New Hampshire Forestry Department was again active in a field investigation of the forest tax situation. This time the study was conducted on a town-wide basis in six typical towns. An attempt was made to determine the assessed value attributable to timber for entire towns. The assessment ratio of timber land indicated for the four towns with the most reliable data was 76 per cent. It was admittedly impossible to predict the assessment ratio of woodland real estate for the entire state on this basis with any accuracy. However, the belief was expressed "that assessed values of woodland are somewhere between 75 and 90 per cent of their full and true values for the state as a whole."²³ The report again sounded a warning as to the necessity of fundamental change in forest tax procedure and emphasized that the optional classification law passed in 1923 and amended in 1925 was receiving little application because

²²New Hampshire Forestry Commission, Biennial Report, 1915-1916, p. 118.

²³New Hampshire Forestry Commission, Biennial Report, 1927-1928, p. 35.

of the manifold restrictions surrounding its use.

At the same time the Forest Taxation Inquiry of the U. S. Forest Service undertook detailed studies in New Hampshire at the invitation of the Forestry Commission and the Tax Commission. Studies were concentrated in three towns and an attempt made to determine the ratio of taxes to estimated value of forests. This study revealed a range in the tax ratio of forest land from 1.7 per cent to 3.8 per cent, with an average of 2 per cent for the three towns under study. The tax ratio of other real estate in the same towns ranged from 1.7 to 2.2 per cent.²⁴ On the basis of these and other findings the Taxation Inquiry did not see fit to make any specific modification of its general recommendations for the United States.

Since a tax of 2 per cent of full value represents about half of the value increment for good stands in New Hampshire even where annual income is received, the studies of both state and federal forest agencies plainly revealed the heavy tax pressure. Though not identical in the interpretation of facts, the various studies indicated that the burden of the property tax on forest land in New Hampshire required alleviation in

²⁴Fairchild, et al., Forest Taxation in the United States, p. 231.

one form or another. With the exception of the report of the Forest Taxation Inquiry there had been fairly general preference for substituting a yield tax for the property tax on second growth lands to be managed for timber production.

Further detailed information on the tax pressure on forest lands is available from the studies conducted by Professor Toumey of the Yale Forestry School in southern New Hampshire. In 1928 he wrote an article contrasting economic conditions in a typical New England forest town during the period of timber exploitation with the subsequent cut-over stage where the tax base had been almost wiped out and the tax rate had soared to 30 or 40 mills on the dollar valuation. He correlated this tax load with the failure of the owners to attempt the practice of forestry.

Citing the example of a small tract of white pine purchased at its full value at the age of 50 years and held for 20 years before sale, he showed that the records of the owner indicated a loss of more than \$100 per acre during the period with carrying charges computed at 5 per cent compound interest. He stressed that "in twenty years the taxes alone at 5 per cent compound interest... amounted to...75 per cent of the value of the increment

for the period."²⁵ He stated that it was generally recognized that the land and yield tax, though just and reasonable, might bankrupt the forest towns. To secure a less drastic reduction in town revenue, he suggested "an annual tax based on the value of the bare land and on the value of the increment or growth of the year."²⁶

He made his suggestion explicit by the following example:

"Comparing the present annual tax on land and stumpage, based on sale value, with the tax collectable where based on land and annual increment, a fully stocked white pine stand worth \$200 or more per acre, fifty years old, which now may pay an annual tax of \$5 to \$7 would pay on a valuation of \$15 to \$25 per acre, or a total of from \$0.40 to \$0.60. A yield tax as high as 60 per cent of the value of the growth is more favorable to the forest owner in many parts of New England than the present tax based on the sale value of both land and stumpage."²⁷

In 1930 Mr. Toumey had opportunity to compare the tax burden of two tracts of approximately 1,000 acres each, located in New Hampshire and in Sweden. The New Hampshire tract was the Yale Demonstration and Research Forest, of which he had been the director for a number of years. The Swedish tract was a normal forest with an annual cut worth \$2.18 per acre and total annual taxes

²⁵J. W. Toumey, "What Ails New England Forests?" Journal of Forestry, 26, p. 467.

²⁶Ibid, p. 471.

²⁷Ibid, p. 471.

of all types amounting to \$0.42 per acre. The New Hampshire tract was below normal in that 85 per cent of the area was covered by stands less than 40 years in age. Accordingly, the annual cut only amounted to \$0.56 per acre, while the annual real estate tax was slightly more than \$0.80 per acre. Mr. Toumey concluded that if the Yale Forest had been "a normally stocked forest, as is the case with the Swedish forest, under existing New Hampshire laws it would have paid a real estate tax of... more than \$2 per acre."²⁸

On the basis of these studies, Mr. Toumey was convinced that there was a definite correlation between the tax burden and timber depletion in southern New Hampshire. It was his finding that pressure for liquidation occurred at 35 to 40 years of age in white pine, or as soon as the trees reached merchantable size, under a system of assessment at full market value. He summarized his conclusion in the following statement:

"It appears that the New Hampshire law requiring that growing timber be assessed as real estate and at its full merchantable value is a cause of the present great deficiency in valuable stands of the older age classes in the forests of southern New Hampshire and the diminishing area of fully stocked stands of high commercial value. No permanent improvement in the forests of New Hampshire is likely under the present method of taxing growing timber..."

²⁸J. W. Toumey and Erik Lindeberg, "An Example of Forest Taxation in New Hampshire as Compared With an Example in Sweden." Journal of Forestry, 28, p. 209.

"It is impossible, economically, to pay the present market value for a 35 to 40-year-old stand of timber of valuable species for immediate cutting and expect to be able to carry that stand in forestry practice to the end of a full rotation without losing money. The annual tax will consume the increase in value laid on in the annual growth. In Sweden the market value of growing forests is not the stumpage value at any given time, because the laws do not permit the forest to be devastated. The growing forest may sell for less than what would be its actual stumpage value, were the timber to be cut at once and the forest devastated."²⁹

Mr. Toumey's concept of the importance of valuation based on immediate liquidation as a deterrent to sound taxation and to good forest practice should be noted. It is a somewhat different approach than has been previously stressed. He recommended reduction in the real estate tax and substitution of a state income tax to make up the deficiency in local revenue.

On the basis of Mr. Toumey's article, Mr. Murphy of the Forest Taxation Inquiry made some additional computations comparing the tax picture in Sweden and New Hampshire. He also emphasized that the big difference between the two areas was in market value determination. He described the two systems as deriving from a forestry regime in Sweden where assessment cannot be based on liquidation value and an exploitation regime in New Hampshire. Under a forestry regime in Sweden the normal

²⁹Ibid, p. 210.

forest would be worth \$37.40 per acre. The same value per acre would have to stand a tax of \$0.86 per acre if the forest were transposed to New Hampshire. Mr. Murphy stressed that the increase in tax burden from \$0.42 per acre in Sweden to \$0.86 per acre for the same value in New Hampshire "can be due to nothing else than the difference in the cost of government in the two places since the Swedish tax system is of no pecuniary advantage, particularly to the normal forests."³⁰ The heavier tax load in New Hampshire would result in a loss in value per acre of \$6 through the process of capitalizing the tax, so that even under a forestry regime the equivalent of the Swedish normal forest would be worth only \$31.40 in New Hampshire. The comparative figures in Mr. Murphy's article can be tabulated as follows:

	<u>Under Forestry Regime</u>		<u>Under Exploitation Regime</u>
	<u>Tax per acre</u>	<u>Value per acre</u>	<u>Tax per acre</u>
Yale Demonstration and Research Forest	\$0.13	\$5.50	\$0.80
Swedish Normal Forest transposed to New Hampshire	0.72	31.40	2.00
			76.00

This table makes evident the marked reduction both in value per acre and tax per acre which would result from a shift from the exploitation regime to a forestry regime

³⁰Louis S. Murphy, "Comments on 'An Example of Forest Taxation in New Hampshire as Compared With an Example in Sweden' by J. W. Toumey and Erik Lindeberg" Journal of Forestry, 28, p. 828.

in New Hampshire. Thus, Mr. Murphy contends that "market value is the crux of the American tax situation and... forest owners themselves are the makers of market value when they buy and sell such forest property."³¹ Therefore, he deems it an inescapable conclusion that the forest owners can cure the bad tax situation through voluntary shifting from an exploitation to a forestry use of their properties with resultant reductions in assessed valuation. However, he willingly concedes that "it is undoubtedly true that if New Hampshire adopted a compulsory forestry regime many towns with a large amount of forestry property on the tax roll at its exploitation value would suffer a pronounced shrinkage in valuation."³² Since the shrinkage in some cases could not be offset by increasing the assessed value of other property to its full value, either the tax rate would have to shoot up or the state would have to contribute the difference in local revenue.

In summary, Mr. Toumey's studies substantiated and clarified the previous conclusion of state and federal forest agencies that the excessive burden of the property tax on New Hampshire forest land had to be remedied if free play was to be given for desirable forest practice.

³¹Ibid, p. 830.

³²Ibid, p. 830.

However, the resulting interchange of recommended solutions added to the diversity of proposals rather than narrowing the field of action.

Irresistible Force Versus Immovable Object

A number of individuals and agencies have been active in the effort to accomplish a fundamental change in forest taxation in New Hampshire. The Society for Protection of New Hampshire Forests has played the paramount role in this regard. Mr. Philip Ayres, for years the forester for the Society, was among the most eloquent advocates of tax reform. In rallying support for the constitutional amendment sought at the 1912 constitutional convention, he stated the principle involved and the objective sought as follows:

"To establish an annual tax upon land values, as such, irrespective of the growing crop of timber; and to tax it only once, as other crops are taxed, at a rate sufficient to reimburse the town and the state for expenditures in fire protection, and sufficient to cover the forest's care in the general burden of taxation...to give to all owners and to the town authorities a definite principle by which all concerned can know what to expect from a long-time investment. There should be no inequality depending upon favor, such as now exists in most towns."³³

Because of the efforts of Mr. Ayres and others, the convention passed an amendment enabling the legislature to classify forest property separately for tax purposes

³³Philip W. Ayres, "Taxation of Forests" in Forestry in New Hampshire, p. 32.

in the spring of 1912.

That summer, the Society held a conference in the White Mountains at which special attention was given to forest taxation. Eminent authorities, including Dr. B. E. Fernow and Professor Fairchild, gave the main addresses. The state foresters of four other states, representatives of timber land owners, and lumbermen were also present and active in the discussion, which is reported in full in a special publication of the Society. Professor Fairchild concluded his remarks as follows:

"A compromise plan which is gaining much favor consists of the yield tax, which I have proposed, combined with an annual tax on the land valued as bare land. On all grounds of principle, this plan is far inferior to the simple tax on the yield..."

"Any effective scheme of forest taxation must involve separate classification of forest lands. This is unconstitutional in many of our states. This is an unfortunate fact, but I see nothing to be gained by trying to adapt our plan of forest taxation to those constitutions which forbid classification. This may appear to be a case of an irresistible force meeting an immovable object. If so, then we will have to insist that the immovable object be moved. Recent events, particularly in New England, give us some grounds for hope that perhaps these constitutions are not so immovable after all."³⁴

³⁴ Society for Protection of New Hampshire Forests, "Taxation of Forests," pp. 34-35.

The immovable object stood its ground for 30 years in spite of separate but cooperative efforts of the Society, the New Hampshire Civic Association, the Farm Bureau Federation, and numerous individuals in official and unofficial capacities. The Tax Commission of 1908, the first permanent Tax Commission in 1911 and the Recess Tax Commission of 1927-28 all gave their blessing to various proposals of forest tax reform.

In 1938 a constitutional amendment allowing separate classification of growing wood and timber was again submitted by the Constitutional Convention and rejected by the voters. After passage of the more specific amendment in 1942 and its partial implementation by statute, an Interim Forest Tax Commission was appointed for 1943-44. The Commission stressed the decline in timber tax revenue from 1930 to 1944. It was concluded that:

"While it doubtless is true that most of the drain on available forest resources would have occurred in recent years under any system of taxation, this Commission is seriously disturbed, in view of past non-development of cutover land and failure to follow careful methods of harvesting, lest little interest will be taken in fostering valuable reproduction unless the threat of future repressive taxation during the period of growth can be removed. It is a demonstrable fact that the rate of timber growth can be doubled or tripled by even moderate measures which forest owners may employ if they believe they can secure a reasonable return for their efforts and expense."³⁵

³⁵Interim Forest Tax Commission of 1943-1944, Report, p. 7.

On this basis the Commission made two major recommendations. It proposed substitution of a 10 per cent yield tax for the property tax on standing timber with a 5-year period of conversion to the new system at a graduated rate of 2 per cent per year. It submitted a bill embodying this principle along with a bill providing for regulation of cutting practices by the District Forest Advisory Boards after public hearings and sanction by the State Forester. Both bills failed to receive favorable action in the 1945 legislature. Similar measures were introduced in the 1947 session and again rejected after strenuous efforts to surmount the objections of the opposition.

IV. DESIRABLE LINES FOR TAX STUDY IN NEW HAMPSHIRE

Making this review has brought home the realization that the path to sound forest tax reform is indeed long and winding. Yet I have also felt a growing conviction that the slow turn of events in New Hampshire is swinging toward a forest tax and conservation policy that will be on a firm foundation. It is not hard to conjecture that an earlier and easier victory for the proponents of a severance tax might have had unfortunate repercussions. Especially might this have been the case if relief for timber owners had occurred independently of any solution to the other tax problems of the state.

New Hampshire's most critical forest tax problem is actually the problem of securing an adequate tax base for its entire governmental structure. It is a problem to which forest owners can well afford to give a substantial share of their attention. The fact that the state has failed to grasp at the easy way out through a sales tax may well be a wholesome sign. (Certainly the sales tax has muddied the fiscal waters of Michigan with its rigid diversion amendment.) It is heartening that New Hampshire voters appear willing to make the best of their situation till a complementary sales and income tax program can be instituted.

Probably there are studies which have been made setting forth the total fiscal picture of state and local revenues and expenses in bold relief. It was not my good fortune to discover such a study. The presenting of complex fiscal issues to the voter in simple graphic terms will do much to assure an enlightened electorate. Even where the basic studies have already been completed, portrayal in popular terms is often necessary.

Comparison of the costs of governmental units within the state and between states could be a valuable procedure. New Hampshire has a sufficient contrast in tax rates and levies as between urban towns, rural towns and unincorporated places to make possible some worthwhile investigations of the relation of type of government to its cost and efficiency. Having neighbor states who are also noted for economy, a close inspection of alternative methods of doing governmental business might yield high returns. Determination of the role of the property tax in New Hampshire as compared to its relative place in the other New England states would be a good start.

The per capita and per acre expressions of cost and valuation employed in this paper have been crude, but are worthy of refinement. The recreation property survey and the separate assessment of standing timber give new opportunities for detailed analysis of the tax scene in

New Hampshire.

Reduction of the total tax burden through streamlined governmental operations is receiving increasing attention and support in New Hampshire. The recent recommendation of the Interim Commission on State Finances for state assumption of a larger measure of responsibility for rural highway and school maintenance is a good example. The experience of other states, such as North Carolina, where the policy of centralization of such functions has been most highly developed, could be a useful guide.

In New Hampshire there should be opportunity for local retention of those functions which do not inevitably fit into a large-scale pattern of operations. The tradition of local democracy has an inherent worth which cannot lightly be tossed aside.

Regarding the more efficient administration of the property tax, the Interim Commission recommended the provision of larger funds for the Tax Commission. The funds would facilitate skilled guidance on assessments and in local auditing or assumption of these functions. The fact that this legislative commission is composed of representatives of the towns, highlights the current trend in public thought.

A special problem of administration is the improvement of methods of keeping track of taxable properties within the towns. State aid to extend the tax mapping

program to all of the towns would pay dividends.

A paradox in the tax administrative field which needs explanation is the circumstance in which properties are generally considered to be overtaxed but rarely are tax-delinquent. Improved assessment through the help of the Tax Commission and the possibility of working out assessment ratios should throw light on this problem.

With regard to special taxation to favor deferred yield property, a warning made forty years ago should be repeated. At that time it was deemed necessary to prevent tax avoidance, where tracts were held for speculative or other non-forestry purposes, by restriction of classifiable land to those tracts chiefly valuable for forest production. The growth of the recreational enterprise within the state has vastly augmented the danger of such tax avoidance, yet little attention appears to have been given to this aspect of the problem in recent years. Where recreational values constitute nearly one-fourth of the valuation of rural land and buildings, the unrestricted classification of all timber land could have unexpected consequences.

Reverting to the note of caution regarding recreational income sounded earlier in this paper, it will suffice here to urge a comprehensive program of land use. Where the timber production potentialities of rural land are neglected because recreational value is more immediate,

trouble may be stored for the future. Admittedly, there is an educational problem in convincing recreational property owners that proper timber harvesting is not a detriment to their recreational values. The New England Forestry Foundation is to be commended highly for its efforts to meet this problem.

Finally, if a yield tax is to be instituted, it might also be well to give special thought to the rates at which both the annual tax on land and the severance tax should be levied. Proper balance between the two tax rates working reciprocally could be of substantial aid in making the combined tax a success once it is inaugurated.

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