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Timber Severance Taxes In Mississippi

By

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ABSTRACT

Timber severance tax collections exceeded 2 million dollars in 1978 and 1979. Severance tax revenues are divided 25% to the state's general fund, 25% to the county where the tax was collected, and 50% to support the forest resource development program. All severance tax rates are fixed on a per unit volume basis except on poles, piling, and posts which are taxed on a percentage of value basis.

Mississippi is a major producer of manufactured forest products. Most timber inputs to these products are grown and harvested within the State. A severance tax is levied on all timber harvested from the State's 16.5 million acres of commercial forest land (Title 27, Chapter 25, Mississippi Code of 1972).

Mississippi's timber severance tax is levied on the per unit quantity of timber products harvested except on poles, piling, and posts where the tax is levied on product value. Timber severance taxes in Mississippi are imposed in addition to the annual property tax on commercial forest land. No timber yield taxes are levied in Mississippi. Higher yield taxes, imposed in some states in lieu of property taxes do not provide predictable tax revenues to the taxing authority. High yield taxes may result in less total production because landowners may postpone paying the tax by delaying timber harvests.

Total severance tax collections for timber in Mississippi have increased each year during the 1970's (Figure 1). Increased severance tax revenues in 1974 resulted after the 1973 tax rates were doubled, effective July 1, 1974, to fund the Forest Resource Development Program (FRDP). FRDP was initiated to encourage timber production on Mississippi's 12 million acres of private nonindustrial timberland. Up to 75 percent of the costs of timber stand improvement, planting, and other forestry practices is paid by FRDP. One half of timber severance tax revenues is used to fund the Program. The other half of timber

severance tax revenues is divided between the State general fund and the County from which the timber was cut.

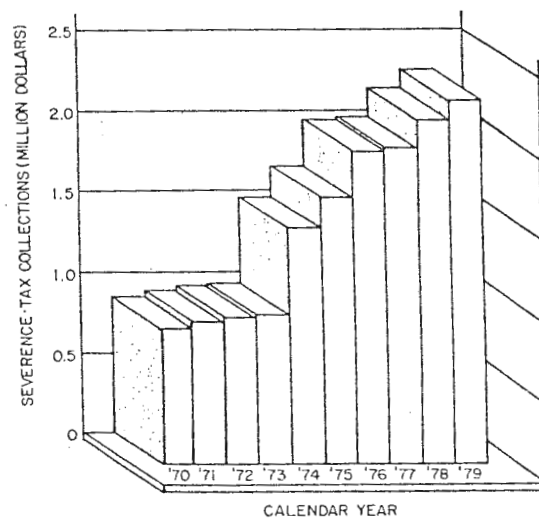


Figure 1. Mississippi timber severance tax collections by year, 1970's

The State Tax Commission annually reports timber volumes harvested and corresponding severance tax collections. Removals of pine timber products are illustrated by year in Figure 2. Pine timber removals are classified to include sawlogs, lumber, and poles, piling, and posts. Total volumes are reported in actual board foot measure. Sawlog removals are converted to actual board foot measure by applying a 20 percent over-run to the Doyle Board Log Rule. Pine timber removals increased in Mississippi during the 1970's. However, in 1975 the harvest volume fell nearly 20 percent from the 1974 level. Large increases in annual cutting in Mississippi have occurred since 1975, however. The volume of pine timber removed in 1979 was 58 percent above the volume cut in 1970.

Hardwood timber removals are presented by year in Figure 3. These removals include hardwood sawlogs

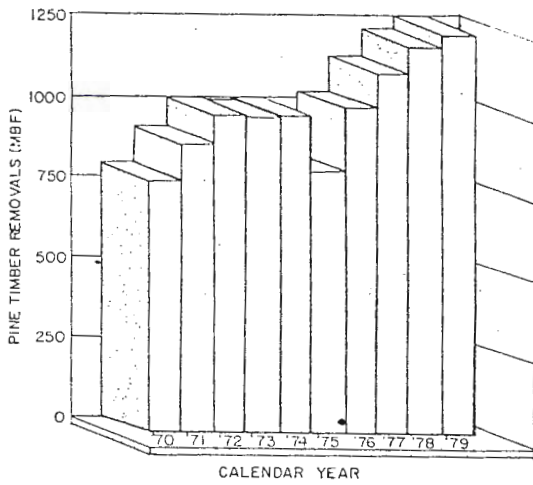


Figure 2. Mississippi pine timber removals reported for severance taxes by year.

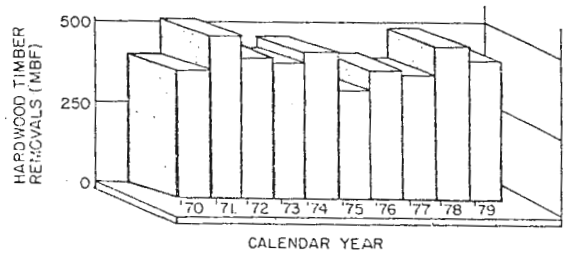


Figure 3. Mississippi hardwood timber removals reported for severance taxes by year.

and all lumber other than pine. Annual hardwood timber harvests during the 1970's peaked in 1971 but show no pronounced annual trends.

Annual pulpwood removals are presented by year for both pine and hardwood in Figure 4. The 1970 pine harvest of 3,153 thousand cords was the largest annual harvest of this product reported during the decade

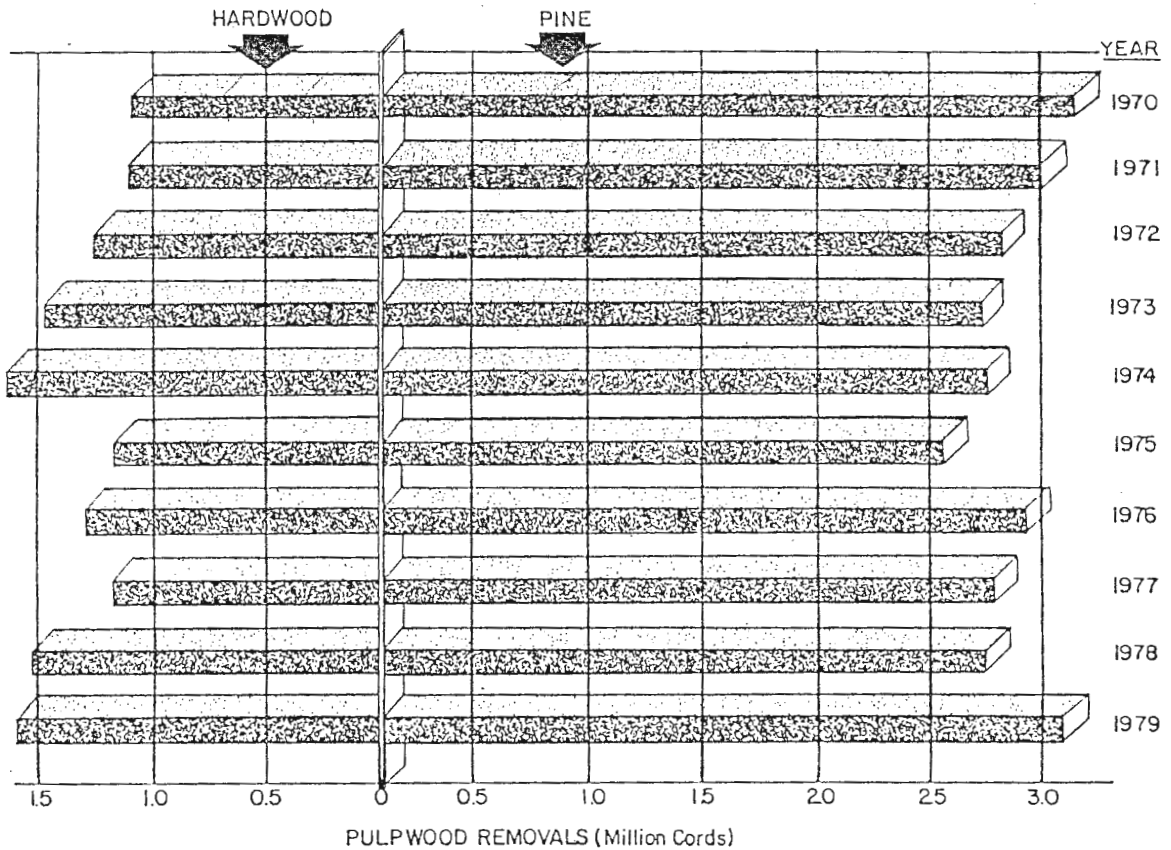


Figure 4. Mississippi pine and hardwood pulpwood removals by year.

because of the necessity to salvage large volumes on areas damaged by Hurricane Camille in 1969.

Mississippi's timber resources became increasingly valuable during the 1970's. Pine sawtimber prices alone more than tripled. Both real and inflationary price increases are expected to continue to increase the value of timber. Severance tax rates on most timber products are established by law at a fixed amount per unit of output harvested and are revised only periodically. In real terms, the effective severance tax rate declines as product value increases. The severance tax on pine sawtimber is presented as a percent of stumpage value in Figure 5. Pine sawtimber values have risen consistently since 1974 and the relative burden of the severance tax has decreased. Effective severance tax rates would remain constant over time if established as a fixed percent of harvest value. The tax on poles, piling, and posts is the only timber severance tax presently levied on value of the output in Mississippi. Levying severance taxes on the per unit value of the product harvested would ensure that annual tax revenues for the State from this source keep pace with inflation and the cost of doing business. The decrease in relative significance of the tax burden which occurred during the 1970's would be prevented also.

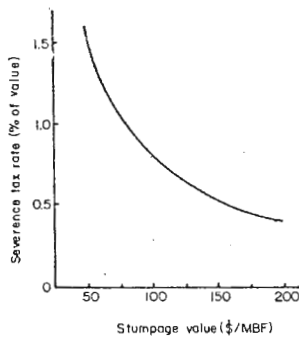


Figure 5. Effect of increasing stumpage values on Mississippi's fixed severance tax rate of 80¢/MBF for pine timber products

Mississippi's present severance tax system for timber and timber products does not violate any major taxation principle. The tax does not interfere with an optimum allocation and use of resources, it is equitable, and is collected with minimum costs. Changing the severance tax rate to a percent of unit value would require the annual determination of average fair market prices for timber and timber

products. This could be accomplished through published price information. The price should be averaged over a three year time period to even out the market fluctuations common to timber prices. The 1980 average price for sawtimber would be based on statewide averages from 1977, 1978 and 1979. Ultimate control of the tax system would continue to be the responsibility of the State Legislature which could vary the percentage of value to be taxed as conditions change. A change in the tax rate or percent of value taxed could be assessed directly as a tax increase or decrease. When tax rates which are levied per unit of volume are changed, direct evaluations of the tax change cannot be made. The unit of volume may have increased or decreased in value since the previous rate was established. Fixed tax rates imposed on volumes removed must be updated frequently or revenues will not reflect real and inflationary value increases or the cost of doing business by the government which is the reason for levying a tax.

Currently, annual FRDP funding increases only when timber removals increase. However, the per acre costs of forestry investments have increased because of rising labor, fuel, and other costs. Revising the basis on which the severance tax is levied from current per unit output basis to a per unit value of output basis would generate more tax revenue. This increased revenue would be more consistent with the costs of maintaining the FRDP program at the level at which it was intended to be funded when adopted.

