

Managed Forest Property Assessment 101

The new property assessment notices, issued in the fall of 2008 by the Municipal Property Assessment Corporation (MPAC), has many woodlot owners, particularly those in the Managed Forest Tax Incentive Program (MFTIP), wondering how their assessments were calculated.

Landowners have not received an updated assessment of their property value since 2005, and many may have forgotten how assessments are calculated. And it seems that when talking about property assessment, it is never simply a “black and white” explanation.

Hopefully, this article will shed some light on how managed forest properties are assessed. It is intended to serve as a refresher for everyone on MPAC’s assessment methodology, which was implemented in 2006 as part of enhancements to the MFTIP program.

First, let’s look at the main overriding principles of how managed forest (MF) properties are assessed.

The approach to assessing managed forests

Managed forest properties are assessed in a manner similar to the method used for farmland, which is based on land bands and soil classification. This assessment approach is called the farm-forest proxy. The farm-forest proxy reflects sales data from wooded portions of farms within a geographic area, based on site productivity (e.g., soil quality, drainage, mineral composition, etc.) and forms the basis for the assessment of land in the Managed Forest property class. The assessment methodology also includes an assessment “cap” and “floor;” see details below.

What is an assessment cap and why is it necessary?

An assessment cap was created because data analysis indicated that the farm-forest proxy assessment approach could result in an increase in property assessment for some properties entering MFTIP (many of

these properties are in Northern Ontario). Even though these MF properties would be afforded a reduction in the tax rate, it is recognized that there could be potential stewardship impacts if the assessed property value increased when a property was entered into the MFTIP. The assessment cap ensures that a property does not experience an increase in its assessed value when entering the MFTIP. It is believed that with the implementation of a cap, the farm-forest proxy assessment approach will work in all areas of the province.

What is an assessment floor?

The assessment floor was introduced because in parts of the province some properties

Current Value

Current value means, in relation to land, the amount of money the fee simple, if unencumbered, would realize if sold at arm’s length by a willing seller to a willing buyer (Source: *Assessment Act*). For assessment purposes MPAC refers to this as current market value.

Land Band

Land band means a geographic area in which similar farm properties sell for similar prices, as determined by the assessment corporation. (Source Regulation 656/05)

would see a significant reduction in their property assessment values under the farm-forest proxy assessment methodology. At the local municipal level this could be viewed as a significant loss of municipal revenues. To address this concern, a mechanism (the floor) was developed that would place a limit

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Assessment Act and updated annually for each municipality and land band. They can be viewed online by accessing the provincial government’s e-laws web page at <<http://www.e-laws.gov.on.ca/navigation?file=home&lang=en>> (refer to the *Assessment Act*, 2001 Ontario Regulation 282/98, Part IX.1 – Table 1).

Determining your managed forest assessment values

As noted in the introduction, when we are talking about property assessment it is never

simply a “black and white” explanation. This definitely holds true when you are trying to determine your MF assessment when there is a residence on the property. However, for vacant MF properties (i.e., properties where there is no residence and the entire property is eligible for the MFTIP) the process is a little easier to understand.

First let’s look at the easy one – how to determine the assessment value of a vacant MF property. Table 2 outlines the steps in

how the assessment of a 50-acre forested property, assuming that it is 100% eligible for the MFTIP, would be calculated.

Unfortunately, determining the assessment of a managed forest property with a residence (or a property where not all of the land is eligible for MFTIP) is somewhat more complicated. The added complexity is apportioning a value to the residence or the ineligible MFTIP area. Although the methodology is outlined in legislation (Regulation

282/98, Section 32.1 and 32.2) Table 3 (next page) will provide readers with a clearer step-by-step process how a 50-acre property (49 acres eligible for MFTIP) with a residence would be assessed.

Need more information on MFTIP assessment?

For additional details on the assessment methodology for managed forest properties, you should read Sections 19 (5.2) and (5.2.1) of

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Table 2: Managed Forest Assessment for a Forest Property (100% eligible for MFTIP)

	Description	Calculation
Step 1	Determine the current value assessment (CVA) for the property as if it were not in MFTIP.	CVA property assessment for 50 acres = \$30,000.
Step 2	Identify the farmland band for the land as assigned by MPAC.	Farmland band for Smith township = 045.
Step 3	Identify the farm-forest proxy value (\$/acre) of the MF land.	Farm-forest proxy value for Smith township = \$247/acre.
Step 4	Calculate the value of the MF assessment value of the property by multiplying the eligible acreage of the property by the farm-forest proxy.	\$247/acre x 50 acres = \$12,350.
Step 5	Determine if the assessment “cap” impacts the property?	The “cap” does not apply because the MF assessed value (Step 4) is less then the CVA of the property before entering MFTIP (Step 1).
Step 6	Determine if the assessment “floor” impacts the property? (Remember the “floor” prevents the assessment from being reduced more than 69% when entering the MFTIP)	The “floor” does not apply because the MF assessed value (Step 4) is not reduced by more than 69% of the CVA of the property before entering MFTIP (Step 1). \$30,000 x 69% = \$20,700 (maximum reduction) \$30,000 - \$20,700 = \$9,300 (floor)
Summary	In this example, the property has a CVA value of \$30,000 before entering the MFTIP. Under the MFTIP program the property is reassessed as managed forest and the new assessment is \$12,350, which is then taxed at 25% of the residential tax rate set for the local municipality.	

on how much a managed forest assessment could be reduced in relation to the property's assessment, if it was not in the MFTIP. The floor is set at 69%, meaning the assessed value of a MF property cannot be reduced more than 69% when entering the MFTIP.

Example: A 50-acre woodlot has a current value assessment (CVA) of \$50,000 before entering MFTIP. After applying the farm-forest proxy (\$224/acre) to the eligible managed forest area (50 acres), the assessed value was determined to be \$11,000. Under the assessment floor the maximum reduction in the assessed value would be \$34,500 (\$50,000 x 69%),

with the floor established at \$15,500 (\$50,000 – \$34,500). Because the MF assessed value of \$11,000 is lower than the maximum allowable reduction, the floor would apply to this property, and the assessment for the managed forest would be limited to \$15,500.

How are waterfront properties assessed?

Eligible waterfront properties in the MFTIP are assessed using the same assessment approach used for all other properties in the program.

Tax rate for properties in the managed forest tax class

The tax rate for the managed forest property

class (i.e., those eligible lands in the MFTIP program) is 25% of the municipal tax rate set for residential properties.

Buildings in or near managed forest areas

Areas used for residential purposes (e.g., house, landscaped areas, cottage, hunting camp, etc.) are not eligible for the MFTIP. A minimum deduction of one acre (footprint) is deducted. For example, a forested 50-acre property with a house would have 49 acres of MFTIP-eligible area and one acre non-eligible (house and one-acre footprint). If the residential footprint is greater than one acre, then the larger area is deducted.

Determining the farm-forest proxy

The farm-forest proxy values are weighted averages based on the acreage and the value of farm woodlots in each soil class and reflects sales data on the wooded portions of farms within a geographic area. Agricultural lands have 6 soil classes, with 1 being the most productive and 6 being the least productive.

Table 1 provides an example of how the weighted average is used to calculate the farm-forest proxy for a given land band and municipality (e.g., the weighted average in this example is calculated to be \$247/acre).

The 2008 farm-forest proxy values (\$ values per acre) are regulated under the

Step 1			Step 2			Step 3	Step 4
Soil Class	Total area (acres) of farm woodlots by soil class		Assessment value by soil class (\$/acre)			Total value of farm woodlots by soil class	The weighted average for a given band is calculated by dividing the total assessment value (Step 3) by the number of total acres of farm woodlots (Step 1). \$551,075 ÷ 2,226 = \$247
1	24	x	\$1,150	=	\$27,600		
2	32	x	\$950	=	\$30,400		
3	139	x	\$800	=	\$111,200		
4	227	x	\$375	=	\$85,125		
5	570	x	\$250	=	\$142,500		
6	1,234	x	\$125	=	\$154,250		
Total	2,226				\$551,075	\$247/acre	

the *Assessment Act* and sections 8.2 to 9.7 of Part II, Parts V.1 and IX.1 of Regulation 282/98, which outlines the process for valuing managed forest lands. A copy of the

regulation is available online at the provincial government's e-laws web page at <http://www.e-laws.gov.on.ca/navigation?file=home&lang=en>. Or, contact Rhonda Roantree

at the Ontario Woodlot Association by calling 1-888-791-1103 ext. #221.

For information on how your residence is assessed or for general information on property assessment,

call the Municipal Property Assessment Corporation at 1-866-296-6722 or visit their website at http://www.mpac.ca/pages_english/about_mpac/overview.asp.

Table 3: Managed Forest Assessment for a Forest Property with Residence (50-acre property)

	Description	Calculation
Step 1	Determine the current value assessment (CVA) for the entire property (house and forested area) through sale comparison approach as if it were not in the MFTIP.	CVA property assessment for 50 acres and residence = \$200,000
Step 2	Determine the CVA of vacant land (similar in size) through sale comparison approach.	CVA property assessment for 50 acres of vacant land = \$40,000 (or \$800/acre). The forested portion of the property (49 acres) would be assessed = \$39,200 (49 acres x \$800).
Step 3	Determine the value apportioned to the residence by subtracting the CVA value of the vacant forested property (Step 2) from the CVA value of the entire property (Step 1).	\$200,00 (Step 1) - \$39,200 (Step 2) = \$160,800
Step 4	Identify the farmland band for the land as assigned by MPAC.	Farmland band for Smith township = 085
Step 5	Identify the farm-forest proxy value (\$/acre) of the MF land.	Farm-forest proxy value for Smith township = \$568 / acre.
Step 6	Calculate the value of the MF assessment of the property by multiplying the acreage of the land by the farm-forest proxy.	\$568/acre x 49 acres = \$27,832.
Step 7	Determine if the assessment "cap" impacts the property?	The "cap" does not apply because the MF assessed value (Step 6) is less than the CVA for vacant land (Step 2).
Step 8	Determine if the assessment "floor" impacts the property? (Remember the "floor" prevents the assessment from being reduced more than 69% when entering the MFTIP)	The "floor" does not apply because the MF assessed value (Step 6) is not reduced by more than 69% of the CVA for vacant land (Step 2). \$39,200 x 69% = \$27,048 (maximum reduction) \$39,200 - \$27,048 = \$12,152 (floor)
Step 9	Determining the total property assessment.	Add the value apportioned to the dwelling \$160,800 (Step 3) + the assessed value of the MF \$27,832 (Step 6) = \$188,632.
Summary	In this example, before entering MFTIP the entire property's CVA was \$200,000. After entering the MFTIP the total assessment is \$188,632, of which \$160,800 is apportioned to the dwelling and \$27,832 to the MF area. The MF area is taxed at 25% of the residential tax rate set for the local municipality.	