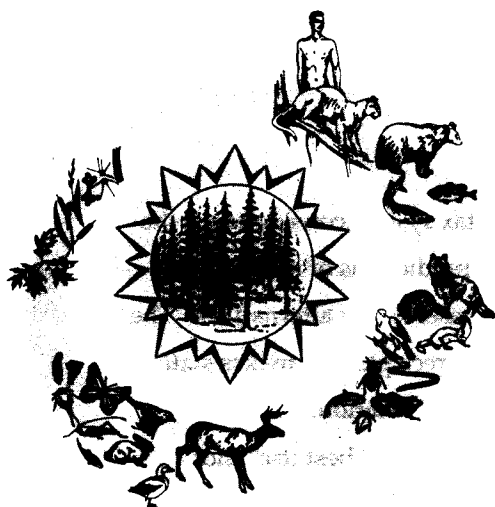


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NEW YORK'S WOODLANDS, REAL PROPERTY TAXATION AND SECTION 480-a

INTRODUCTION

Forest resources have tremendous economic, ecological, and social value, yet contemporary land-use decisions often contribute to their demise. Perhaps one of the most pressing problems involves the interrelations between urbanization, residential development, land speculation, and property taxation. This problem is severe in New York State where massive urban centers are widely separated by extensive forest and agricultural lands. As these centers expand, land-use conversions often result from owners realizing impressive profits from the sale of their lands to developers, speculators, and recreationists. Usually, such returns far outweigh the profits derived from a long-term forestry or farming enterprise. However, forced conversions also result from more subtle property taxation pressures.

THE PROPERTY TAX DILEMMA

Historically, property taxes have been the primary means of raising revenue for local government and other community services. The property tax in America has become largely a tax on one particular form of property -- real estate. Real property tax is ordinarily an *ad valorem* tax; that is, the amount of money levied against a particular property is based on its value. Theoretically, a comparable value must be determined for every parcel of taxable property. "Fair market value" is usually assumed to be the proper criterion for such an assessment. Unfortunately, even when a market value is determined, it may not always represent the true value.

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The American public is generally disenchanted with the property tax system, considering it the least fair form of taxation.¹ However, despite all the criticisms and all the predictions of its demise, property taxation seems destined to remain as it has various merits not possessed by alternatives.² The fact that property taxes produce more than 70% of all local government tax receipts also makes state tax officials quite conservative when it comes to significantly altering this form of taxation.

Generally, land taxes are levied on the basis of a parcel's "highest value and best use", not current use. Thus, the demand for land for various purposes in an area is critical. If a parcel sells for a high price due to its location, particular physical and biological attributes, or future economic worth, tax assessors often assume that comparable lands have the same value and assess them accordingly. Therefore, tax assessments on undeveloped forest land can rise considerably and an owner firmly committed to sound forest management may be forced to consider other land-use options. Recently, this has been the case in many areas of New York State.

One example should suffice to illustrate the dilemma facing many forest landowners today. Mr. Brown is a professional forester owning and managing 1000 acres of land about 50 miles southeast of Utica, New York.³ During the last 46 years he has planted about 74,000 seedlings, thinned half his acreage, and harvested \$48,856 of saw timber and pulpwood. But he also has paid almost \$131,300 in property taxes. Obviously, the financial incentives provided by sound management practices are weak especially when Mr. Brown's yearly record of property tax payments is considered.⁴ The potential for being able to continually meet the property tax burden by managing these lands for timber production alone does not look very promising.

A tax assessor would view Mr. Brown's situation quite differently. In 1946, Mr. Brown purchased his 1000 acres at about \$7 per acre. It is now probably worth \$500 per acre giving him a nice return on his investment of over 7100%! Hence, if property tax assessments did not reflect this rise in property value, local taxing jurisdictions would be steadily losing a considerable amount of revenue. Faced with inflation, the demand for public services, and changing land uses, assessors are forced to increase tax assessments on properties within their jurisdictions.

¹Changing Public Attitudes on Governments and Taxes. 1977. Advisory Commission on Intergovernment Relations, 6th Annual Survey.

²Siegel, W. C. 1977. An Overview of Forest Property Tax Laws in the Western United States. Paper presented at the Western Regional Forest Property Workshop, Olympia, WA, Nov. 14-16, 1977. U.S.D.A. Forest Service reprint. 16 p.

³A fictitious name but actual data. The authors thank "Mr. Brown" for supplying these data.

⁴Between 1947 and 1974 property taxes rose slowly from about \$330 per year to about \$1500; since 1974 yearly taxes have been about \$2950 (1975), \$3500 (1978), and \$10,000 (1992).

FOREST PROPERTY TAXES

Standing timber in the United States has traditionally been assessed under the general property tax, sometimes as a separate entity and sometimes together with the land. In 1966, the general property tax applied to about 90% of the nation's private commercial standing timber and 99% of the private commercial forest land.⁵ Today, the proportions are somewhat less - particularly for timber. A number of states have passed legislation to exempt standing timber, at least partially, from property taxation. States have taken one of two general approaches to the tax question: (1) special forest tax laws (e.g., yield taxes, modified property taxes, and exemptions) and (2) desirable land use or "present use" taxation.^{6,7} Even so, the great majority of commercial timber and timber lands in the United States today still seem to be subjected to unrestricted property taxation.

NEW YORK'S FOREST TAX LAWS

Fisher Tax Law -Section 480

Before 1926, there were three laws in New York State providing for reduced or deferred taxation on forest property. All three were repealed by the enactment of Chapter 610 of the Laws of 1926. This Chapter was amended, renumbered and reorganized many times and in 1959 finally became Section 480 of the Real Property Tax Law which itself was amended in 1974. This law is commonly called the Fisher Forest Tax Law.

The Fisher Forest Tax Law was based on a yield tax principle where land was taxed yearly as if timber was absent; once the land was harvested, the timber removed was then taxed. Furthermore, the land value ceiling was "frozen" at the time the application for classification was filed. Hence, assessed values could not increase above this amount even if comparable lands not under the Law increased considerably in value. Increased assessment was only possible by changing the equalization rate.⁸ However, frequently tax assessments on the land were increased in order to offset losses of taxes from the standing timber. In addition, the Law had many loopholes which made it a good tax shelter for many land speculators and a problem for most assessors.

⁵McDonnell, N. R. 1966. Alternative methods of taxing specific industries: timber taxation. CH. 14. Proc. Tax Instit. of Amer. Symp., Chicago, IL, Nov. 3, 1966.

⁶Winch, F. E., Jr. 1972. Forest taxation. Cornell Univ., Department of Natural Resources. Cons. Circular 10(4): 4 p.

⁷Maryland Dept. of Nat. Res. -- Forest Service. 1993. Forest conservation and management means property tax savings. Tawes State Office Bldg., Annapolis, MD 21401.

⁸equalization rate = $\frac{\text{assessed property value}}{\text{real market value}}$

Unfortunately, the Fisher Tax Law proved to be ineffective for many forest landowners, especially those experiencing pressure from urban areas. The latitude given the State Board of Equalization and Assessment and the local assessors in setting the value of forest land throughout the state seemed to be the major problem. Hence, assessments continued to rise on all forest lands located in areas experiencing inflationary land prices.

New Forest Tax Law-Section 480-a

The Fisher Tax Law was inadequate for many landowners who wished to produce a commercial forest crop. In an attempt to correct this critical situation, a new Forest Tax Law was passed and became effective as Section 480-a of the Real Property Tax Law on July 1, 1977. Section 480-a replaced the Fisher Tax Law. For the 620,000 acres then enrolled under the old Law, owners could either remain under its provisions or elect to apply for certification under Section 480-a.

Provisions: The goal of Section 480-a is to encourage commercial forestry by correcting tax inequities, thereby encouraging proper forest management practices and reducing incentives to sell forest lands for other purposes. The New York State Department of Environmental Conservation (D.E.C.) administers 480-a. In order to qualify, lands must be certified by the D.E.C. and, as mandated by the Law, must comply with the following provisions.

- 1) The minimum size of eligible forest land is 50 contiguous acres.
- 2) The minimum commitment period of land to forestry is 10 years. The owner must annually recommit the land for this purpose.
- 3) There must be sufficient stocking of trees on the land to allow a merchantable harvest of forest products within 30 years.
- 4) A detailed management plan must be approved by the D.E.C. Penalty taxes are applied if the owner fails to follow the plan or notify the D.E.C. before cutting.
- 5) A total of ten standard cords may be cut annually for the owner's use. Cutting is tax free and no notice to the D.E.C. is required.
- 6) The net assessment (at a 100% equalization rate) for lands under this Law is \$40.00 per acre or 20% of the assessed value for lands in similar use but not classified under this Law, whichever is greater (see Appendix I).
- 7) When harvested, 6% of the crop's stumpage value (i.e., timber value on the stump) must be paid as a yield tax to the county treasurer.
- 8) Severe rollback tax penalties are applied for partial or total change of land use: 2-1/2 times the tax savings gained over a maximum 10-year period if the land is totally converted, or 5 times the tax savings gained if the property is partially converted, plus a compound interest penalty as set forth in Section 924-a of the Real Property Tax Law.

Rules and Regulations: As required, the D.E.C. developed the Rules and Regulations for compliance under Section 480-a. The Rules and Regulations embodied the Law's provisions and intent as well as additional directives necessary for its implementation. Copies of the Rules and Regulations, the Law, and application materials may be obtained from the D.E.C. regional office which has responsibility for the county or counties in which the land is located. Hence, a detailed description of the various Rules and Regulations is not presented here. However, certain features indicative of the extent, limitations, and requirements of Section 480-a will be highlighted. Keep in mind that these are in addition to the Law's provisions listed above and that compliance with both is mandatory.⁹

The Rules and Regulations legally define all terms and names used to implement Section 480-a. The following are of specific interest.

- 1) A "forester" is an individual who has graduated from, or possesses the qualification equivalent to graduation from, a school of forestry recognized by the Society of American Foresters.
- 2) The "management plan" is the document that details the requirements and standards necessary for the production of a merchantable forest crop within 30 years.
- 3) A "stand" is an aggregate of trees sufficiently uniform as to be distinguishable from other aggregates. It must be capable of producing a merchantable fiber crop within 30 years and must contain at least 500 stems per acre or 60 square feet basal area per acre. Natural seedlings must be at least one foot tall and planted trees must be at least in their third growing season on the site in order to be part of a stand.
- 4) A "commercial harvest" is the removal of trees for which the owner received an economic return from their sale or utilization. This does not include the ten standard cords of firewood which may be cut annually by the owner for his own use.
- 5) A "noncommercial harvest" is the cutting of those trees which have no commercial net value due to their size, condition, or health.

A 6% yield tax must be paid on all trees sold or utilized by the owner above the ten standard cords per year allotted by the Law. However, this tax is based on stumpage value which is relatively low for most thinnings. For example, firewood stumpage typically is about \$10 per standard cord yielding a tax revenue of only \$0.60. Obviously, this regulation is only necessary in order to control large industrial owners who utilize all or most of their timber for producing their own lumber or other products.

The application procedure for certification under Section 480-a is detailed in the Rules and Regulations and is complex. A summary of this procedure is as follows:

⁹A careful examination of the Rules and Regulations as well as the Law is necessary before applying for certification. Hence, landowners wishing to apply must contact their local D.E.C. office long before the tax rolls close on March 1.

- STEP I: APPLICATION**
 Owner \longrightarrow D.E.C.
 (1) completed application forms
 (2) management plan (2 copies)
 (3) type map (3 copies)
 (4) location map
- STEP II: REVIEW AND DECISION**
 D.E.C. \longrightarrow Owner
 (1) approves or disapproves application within 90 days (if disapproved, all application materials are returned to the owner; the application fee is nonreturnable)
 (2) issues certification of approval (2 copies)
 (3) issues annual commitment forms (3 copies)
 (4) returns management plan (1 copy)
 (5) returns type map (2 copies)
- STEP III: ASSESSOR NOTIFICATION**
 Owner \longrightarrow Assessor
 (1) completed application for exemption form
 (2) certification of D.E.C. approval (1 copy)
 (3) type map (1 copy)
 (4) annual commitment forms (1 copy to the assessor, 1 copy to the county clerk and 1 copy to the D.E.C.) - must be done annually in order to qualify for the exemption
- STEP IV: EXEMPTION CERTIFICATION**
 Assessor \longrightarrow Owner and D.E.C.
 (1) issues exemption certification

Separate applications must be made for each eligible tract. A complete application must include a management plan prepared by a qualified forester and a location map or aerial photograph of the tract. Property boundary lines must be marked so as to be easily identified on the ground. Complete applications will be processed by the D.E.C. office within 90 days of receipt. Reasons for rejecting, if necessary, will be explained and the owner will have the opportunity to reapply. If the application is accepted and certification is granted the owner must notify the local assessor's office. Henceforth, the lands must be recommitted yearly before the tax rolls close on March 1. Failure to notify the assessor does not constitute noncompliance but no tax savings will be granted for that year. Lands may be recommitted the following year and receive the benefits of the Law. The property is bound to the requirements of Section 480-a for a 10-year period. If compliance under the Law is no longer desirable, the lands are not recommitted yearly; however, the management plan must be followed for the remaining nine years if rollback penalties are to be avoided.

The management plan is probably the most critical requirement for certification and continued compliance under Section 480-a. If it is incomplete, the application will be rejected by the D.E.C.; if it is not followed, the D.E.C. will revoke certification and rollback penalties will result. Department employees and the local assessor have the right to enter and inspect any eligible tract in ascertaining compliance as long as the owner is notified. There is a public hearing procedure available for owners who have their

certification revoked for noncompliance, including land conversion to a use other than the production of a commercial timber crop.

The management plan must be very detailed and include:

- (1) A listing of the merchantable forest crops to be produced.
- (2) A type map showing boundaries, physical features, stand descriptions, etc.
- (3) A listing of the stands indicating such features as species present, sizes, site class, acreage, and prescription recommendations (i.e., the work necessary to accomplish the management system).
- (4) A work schedule for each of the following 15 years identifying all thinning operations, road construction, etc. Noncommercial treatments must be accomplished at either 10 acres per year or 5% of the total acreage needing treatment, whichever is greater.¹⁰
- (5) A description of erosion and sediment control measures as needed.

The management plan must be developed by a forester. DEC does not develop 480-a plans; therefore most forest owners rely on the services of consulting foresters. Management plans developed in the past under the Forest Practice Act are not complete enough to meet certification requirements. Individual landowners would not qualify as a forester unless they met the definition presented earlier and/or were "approved" by the D.E.C.

Once the plan is developed and certification granted, it must be followed in order to prevent revocation and rollback penalty assessment. The approved management plan can be altered or amended only by filing a written request with the D.E.C. indicating the nature and substance of the change. The Department will notify the owner within 10 days of receipt as to their decision.

Who Should Apply: Obviously, Section 480-a of the Real Property Tax is not for every forest owner. The Law and its Rules and Regulations are very tight in order to ensure a long-term commitment by a landowner to the production of a timber crop. Only wood fiber is considered a crop and other forest uses (e.g., maple sirup production, Christmas tree production, recreation) must not significantly influence the production of this crop. In addition, enrolling under Section 480-a constitutes a lien on the land and future owners must comply with the Law's provisions or suffer the appropriate penalties. Since lands are recommitted every year there is always a 10-year period that the management plan must be followed. In addition, the stand prescription identified in the management plan must be carried out yearly at the appropriate rate. If an owner does not, or cannot, accomplish the work required, forest workers will need to be hired in order to maintain compliance. Once enrolled, lands can be converted

¹⁰However, stands which demonstrate a productive capacity of less than 50 cubic feet per acre per year may be exempted from this requirement if the desired merchantable forest crops do not economically justify such treatment.

without penalty only by not committing them yearly and following the management plan for the remaining nine years. Of course, normal property taxes are paid during these years.

If a landowner understands these restrictions and requirements and is still interested in applying for certification under Section 480-a, then additional factors must be considered. There can be no standard recommendation in this respect as each parcel will be completely different. Features to be considered are:

- (1) The general location of the parcel in the State; current and future land values, equalization rates, local tax revenue needs, and demands for land in that area (see Appendix I and II).
- (2) The specific location of the tract of land in relation to roads, towns, suburban areas, recreational areas and other current and future development sites. Particular areas within a tract may best be excluded from certification if their value is likely to rise greatly making future sale attractive. For example, forest land directly adjacent to a county or state road may be best held for future sale or personal use.
- (3) The condition of the forest stands to be included; species composition, age, health, site and past management activities are all important. If relatively little timber stand improvement work is needed, then Section 480-a may be more financially attractive.
- (4) The age, desires, experience and capabilities of the owner. One must be sure that commercial forestry is a primary management goal before enrolling. The requirements for compliance must be compatible with the owner's reasons for owning land.

Thus, the decision to apply for a partial tax exemption under Section 480-a is a difficult one and one not to be taken lightly. If a landowner does not have the experience and knowledge to fully evaluate the various trade-offs, professional help is mandatory. The D.E.C. can provide some assistance. However, it seems that the major amount of help will probably come from hired consultants - both foresters and possibly tax accountants and lawyers. Though costly, this will be money well spent as a poor decision, either way, will prove to be a long-term burden to the owner.

CURRENT SITUATION

Landowners

To date, less than 4% of the eligible forest land in New York is enrolled in this program. Enrollment statistics as of 1990 are as follows¹¹: 1,401 tax parcels, \$88.5 million equalized exempt value, with parcels in 37 counties, and 199 towns. Data compiled by DEC in 1992 are as follows¹¹: 306,577 ac. enrolled, 849 certified tracts (can include more than 1 parcel), and 2% of the State's commercial forest enrolled. The rate of enrollment has been increasing over the past 5 years, primarily in the Adirondack region and the Catskill-Lower Hudson counties (where over 80% of the total exempt value is located).

¹¹McCall, J.A. 1992. The 480-a forest taxation program: utilization, administration, and fiscal impact. Office of Policy Analysis and Development, State Board of Equalization and Assessment. Albany, NY. 43 pp. (Single copies of this report are available from: Sheridan Hollow Plaza, 16 Sheridan Ave., Albany, NY 12210-2714).

Impact of the shift in taxes to non-exempted parcels has been negligible throughout most of the state, except possibly Sullivan County where two towns experienced tax shifts of over \$100 per non-exempt parcel.

Limited participation in the program on the part of forest owners seems to stem primarily from the extremely tight state control of lands certified under Section 480-a. Many landowners have a strong independent nature and see the Forest Tax Law greatly limiting their personal rights. For others, the fiber-crop orientation of the Law is not compatible with their management goals and personal aspirations. In many other parts of New York State tax pressures are such that little savings are afforded by certification. This is especially true if a considerable amount of timber stand improvement is required. Of course, the fact that 50 acres is the minimum size immediately excludes over half of the private, nonindustrial landowners in New York State.

Assessors

Though Section 480-a is definitely an improvement applauded by those concerned with the sound management of New York State's forest lands, there are legitimate concerns about its implementation. County assessors and local governments have expressed concern over the possible impact of the Forest Tax Law on tax revenues. Local government, community services, and school costs in the State in the last 10 years have risen dramatically and therefore, the revenue derived from property taxes has taken on increasing importance. Assessors now fear both a loss of revenue from lands enrolled under this Law as well as a significant shift in the tax burden to landowners whose properties are not eligible (see Appendix II). Concern is especially strong in areas near expanding urban centers where the question of providing a tax shelter for land speculators still exists. Theoretically, the Forest Tax Law could have a significant impact on a community if a large proportion of its eligible forest land is enrolled.

CONCLUSIONS

The potential impact of the Forest Tax Law on New York State is a complicated question. The greatest variable probably involves the decisions and priorities of individual forest landowners. Not all qualified lands will be enrolled because the Law's requirements are very specific and its rollback penalties severe. Obviously, Section 480-a is only advantageous to those who are firmly committed to long-term, commercial forestry. The critical issue seems to be how many acres in each area of the state will be enrolled and how this will influence local tax revenues. Each tax jurisdiction will be unique having its own land-use mosaic, revenue base, and demand for public services. Increased participation in 480-a by forest owners and acceptance by local municipalities might be enhanced by implementing changes in the law that would allow:¹²

¹²McCall, J.A. *op. cit.*

- (1) increased technical assistance to small nonindustrial forest owners to help overcome the costs and requirements for certification, and to meet continuing obligations of management plans.
- (2) relaxation of the detailed, specific requirements (management activities, scheduling, and performance regulations) pertaining to management plans.
- (3) recognition of non-fiber producing amenities of forest ownership (e.g., open space, wildlife habitat, watershed values) to owners and communities.
- (4) provision of some level of state reimbursement to local municipalities for the loss of tax revenues.

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APPENDIX I: EXEMPTION CALCULATIONS UNDER SECTION 480-a

The new Forest Tax Law indicates two methods of calculating the amount of tax exemption to be allowed for an eligible tract and that the lesser exemption shall be used. The first is a flat 80% of assessed value exemption; the second is the excess of assessed valuation over the equalization rate multiplied by \$40. The following example will illustrate these calculations and the determination of the exemption allowed on a tract with an assessed value of \$350 per acre in a town with a 70% equalization rate (E.R.).

Method 1: Assessed value x 80% =
\$350 x 80% = \$280

Method 2: Assessed value - (E.R. x \$40) =
\$350 - (70% x \$40) = \$322

In this case, Method 1 yields the lesser exemption and the new assessed value would be \$70 per acre (i.e., \$350 - \$280).

There is a point at which a landowner will receive no exemption benefit from enrolling an eligible tract under Section 480-a. This point varies depending upon the particular assessed valuation and the E.R. No benefit is received if the product of multiplying \$40 by the E.R. is equal to or greater than the assessed value per acre of the property. The possibility of this occurring is minimal since the E.R. is dependent upon the assessed value of property.

However, these calculations do illustrate that the amount of exemption is dependent upon the E.R. and the assessed value of forest property in a particular tax jurisdiction. Obviously, the greater the exemption, the more attractive Section 480-a will be to a landowner. This is especially true when the costs of following the forest management plan are considered. It is possible that a prescribed management program could more than wipe out any tax savings.

In addition, the mere calculation of an exemption does not indicate the total magnitude of the tax savings. This savings will depend upon the tax rate per \$1000 of taxable assessed valuation. However, the tax savings can be approximated by using the last known rate per \$1000 and the assessed value of land without deduction. By subtracting the Section 480-a exempted tax from the regular or unexempted tax, the amount of savings can be estimated reasonably barring any drastic change in the rate per \$1000 (see Appendix II).

APPENDIX II: EXAMPLE OF THE EFFECT OF SECTION 480-a ON FOREST PROPERTY TAXES

Assume that a tax jurisdiction needs \$50,000 from 20,000 acres of property and that half of this property is eligible for exemption under Section 480-a. Further assume that the equalization rate is 100% and that the market value of this land is \$500 per acre. Then, without any exemptions under Section 480-a, the following situation exists:

	<u>"Parcel 1"</u>		<u>"Parcel 2"</u>
Total true value	\$5,000,000		\$5,000,000
Assessed value	\$5,000,000		\$5,000,000
Tax rate per \$1000	\$5		\$5
Taxes due	\$25,000	+	\$25,000 = \$50,000

Thus, the total assessed value is \$10,000,000 and the total tax generated equally from both "parcels" at \$2.50 per acre is \$50,000.

Now assume that 10,000 acres are certified under Section 480-a (using Method 1: assessed value x 80% = exemption; see Appendix D). The situation that now exists is:

	<u>"Parcel 1"</u>		<u>"Parcel 2"</u>
Total true value	\$5,000,000		\$5,000,000
Assessed value	\$1,000,000		\$5,000,000
Tax rate per \$1000	\$8.33		\$8.33
Taxes due	\$8,333	+	\$41,667 = \$50,000

Thus, the total assessed value has decreased to \$6,000,000 requiring an increase in the tax rate per \$1000 in order to generate the needed \$50,000. However, the tax burden is shifted greatly from the exempt "parcel" (\$0.83 per acre) to those lands not under Section 480-a (\$4.17 per acre).

Obviously, this is a very simplified example of the potential impact of the Forest Tax Law on the local taxing structure. The impact will vary greatly depending on all the values used in this example. Probably the most critical factor will be the amount of lands exempted under Section 480-a compared to the rest of the taxable property within the tax jurisdiction.