Timberland Property Tax in Texas

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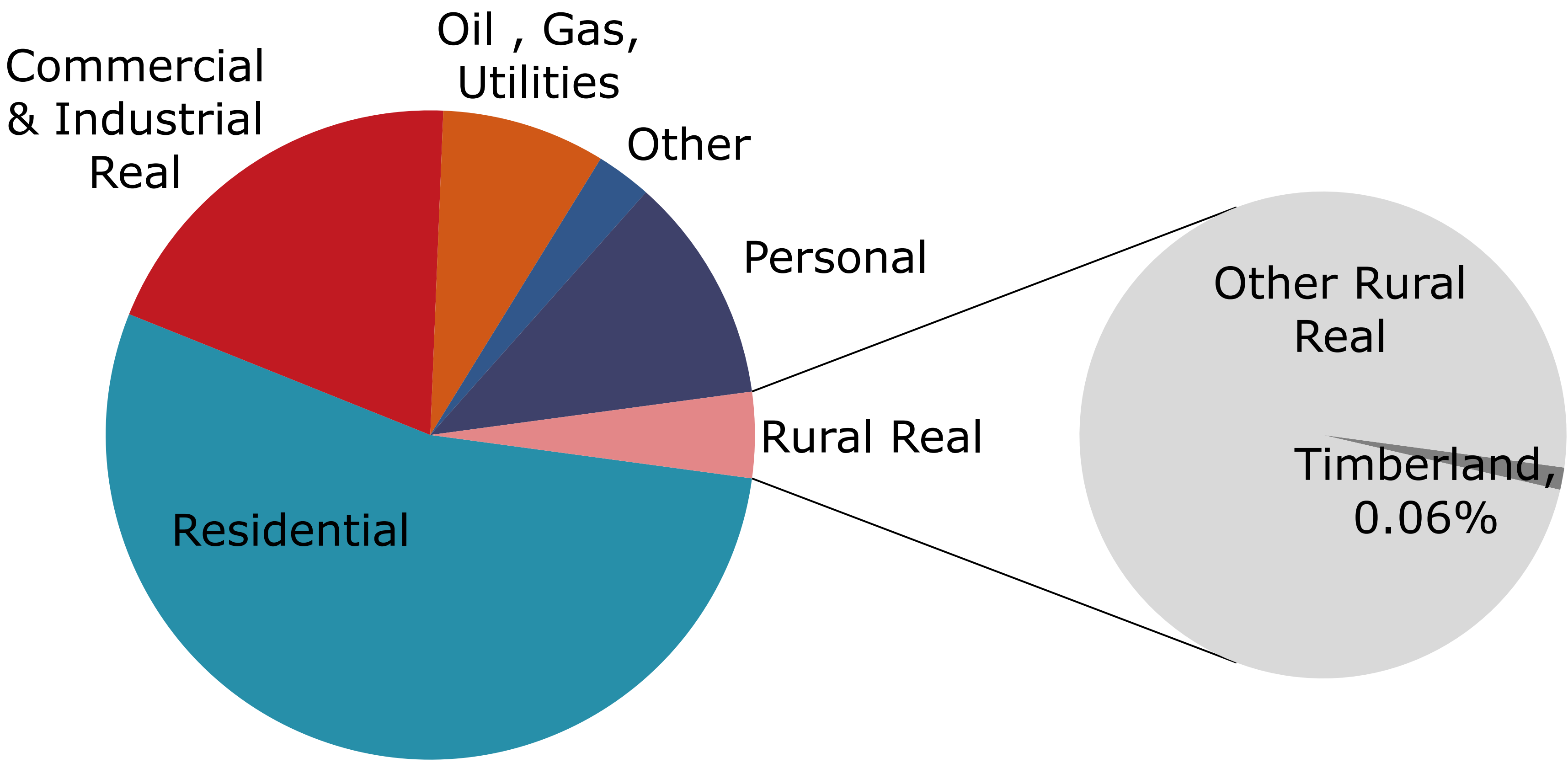
Outline

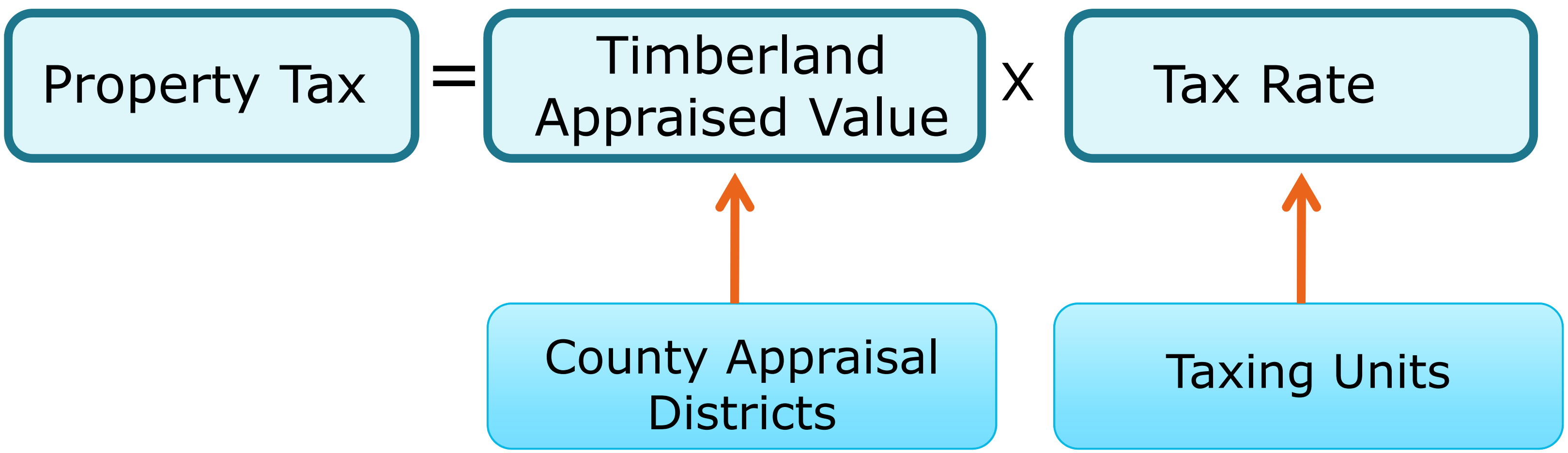
- Timberland property tax
- State tax incentives for timberland
- Wildlife management valuation on timberland
- Landowners' rights and remedies

Texas Taxable Property Value by Category, 2011



Timberland Property Tax in Texas

- Ad valorem tax



Timberland Property Tax

Suppose a 10-acre pine tract is appraised at $200/acre, and the tax rate set by the TA in the county is $3 per $100 value. Then

Property tax = $200 X 10 X 3 /100 = $60

Timberland Property Tax

- Local tax, not state tax
- Tax on timberland, not timber

Timberland Valuation

- Market value
- Timber in transition value
- Timberland productivity value
  - Restricted-use value
- 1978 market value

Timber in Transition

- Agricultural land → timber use
- Tax benefit: 15 years as agricultural land
- In the 16th year, timber use applies

Timberland Productivity Value

“Equals the average annual net income a prudent manager could earn from growing timber over the 5-year period preceding the appraisal’s effective year, divided by a statuary capitalization rate”

— the Manual

Timberland Productivity Value

Timber-use Value:

Average Annual Net Income

$$= \frac{\textit{TimberPrice} \times \textit{TimberGrowth} - \textit{ManagementCosts}}{\textit{CapRate}}$$

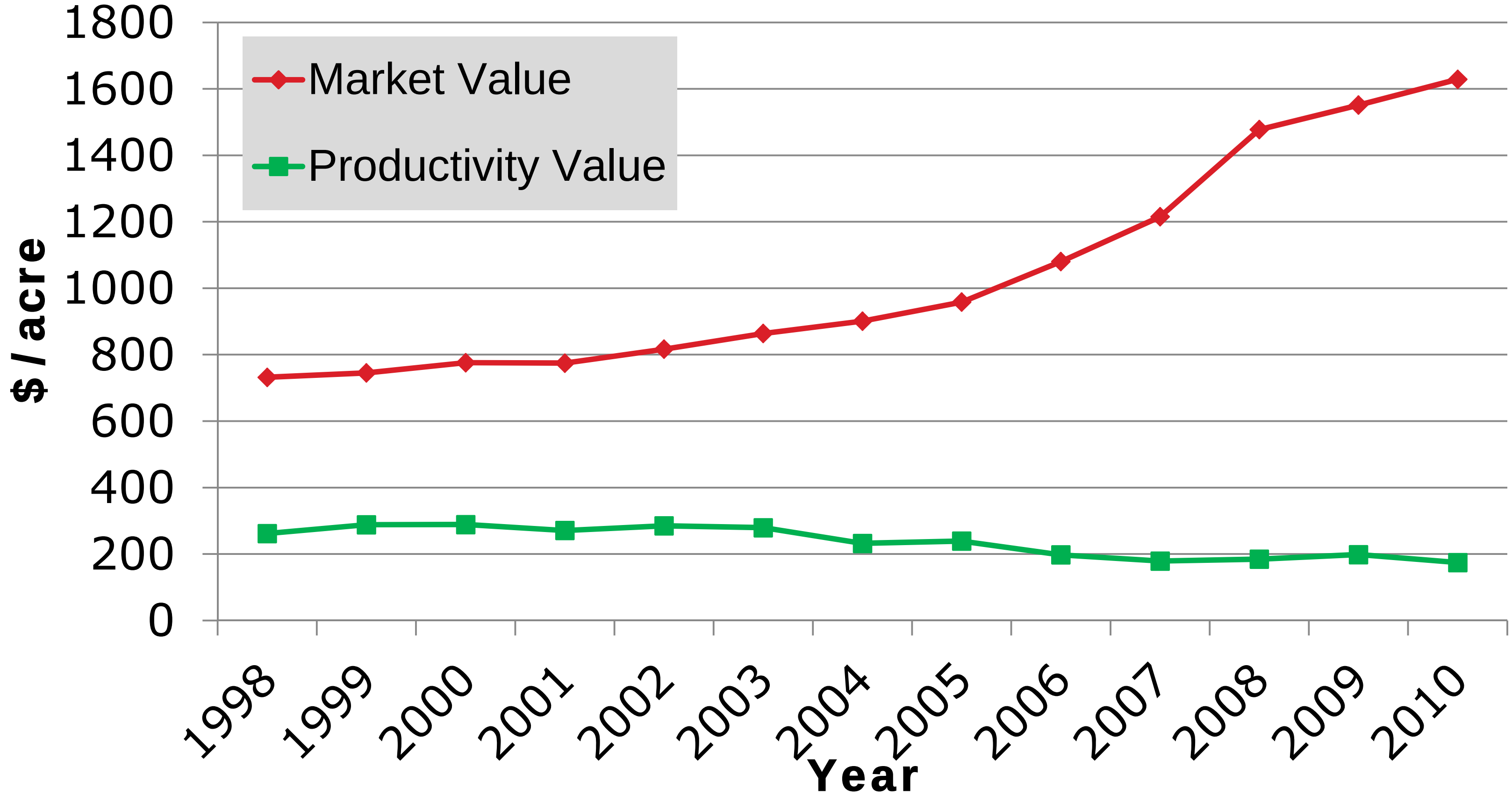
Capitalization of net annual income

Based on productivity, potential income

- Currently and actively devoted to timber
- Primarily for timber production
- Intent to produce income
- Degree of intensity
- Historical requirement

Eligibility

Timberland Productivity Value



Timberland Productivity Value

- Timberland value differs by forest type and soil type
- 3 Forest Types: Pine, Hardwood, Mixed
- 4 Soil Types: I, II, III, IV
- 12 Categories

Example

	Pine	Mixed	Hardwood
I	$329	$296	$140
II	$204	$190	$65
III	$91	$94	$48
IV	$161	$85	$24

Comptroller Office, 2011

Restricted Use Timberland Valuation

Reforested Land (SB977)

- Property tax benefit: 50% of regular timber-use appraisal for 10 years
- In the 11th year, regular timber-use appraisal applies as long as it qualifies

TFS Recommended Criteria for Reforested Land Appraisal

- Upland site regeneration
  - 300 trees / acre
  - At least 8 trees/acre well-spaced with 16 inch DBH
  - Site preparation recommended

- Bottomland site regeneration
  - 300 trees / acre
  - Natural regeneration by cutting all trees
  - Planted hardwoods or pines are an option depending on site conditions

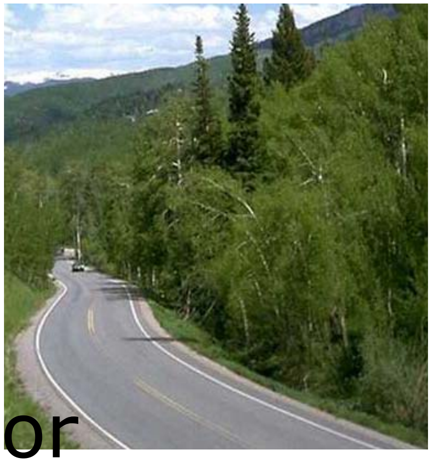
Special Forest Zones (SB977)

- Aesthetic Management Zone (AMZ)
- Critical Wildlife Habitat Zone (CWHZ)
- Streamside Management Zone (SMZ)

- Property tax benefits:

  50% of the regular timber-use appraisal as long as it qualifies

Aesthetic Management Zone (AMZ)



- Timberland determined as special or unique for aesthetic purpose
- Two types:
  - ❖ Public rights-of-way

    Highway or other public road, public use area (park, cemetery, school…)
  - ❖ Special or unique area

    Natural beauty, topography, historic significance

TFS Recommended Criteria for AMZ Public Rights of Way

- 10 years old or 35 ft tall
- Zone width: 100-200 ft, within 200 ft from edge
- Management plan
- Harvest restriction (BA>50 ft^2 /acre)

Critical Wildlife Habitat Zone (CWHZ)

Timberland on which timber harvest is restricted to:

- protect endangered/threatened species
- provide at least 3 of 7 benefits
  - Erosion control
  - Habitat control
  - Predator control
  - Providing supplemental water supplies
  - Providing supplemental food supplies
  - Providing shelters
  - making census counts to determine population

TFS Recommended Criteria for CWHZ

- Conservation agreement
- Endangered or threatened species
- Management plan
- Harvest restriction (BA>50 ft^2 /acre)

Streamside Management Zone (SMZ)

Timberland on which harvest is restricted to:

- Protect water quality or
- Preserve a waterway (lake, river, stream or creek)

TFS Recommended Criteria for SMZ

- Streams or waterbody
- Width: 50 ft from each bank, up to 200 ft
- Trees 10 years old or more
- 300 trees per acre
- Minimum 50 ft^2 / acre basal area
- Management plan

When CA Questions an Application, TFS Makes Final Determination on:

AMZ-Public
Rights of Way

Critical Wildlife Habitat
Zone

Streamside
Management
Zone

Before TFS Make Final Decision:

- The appraisal office will notify landowner of the request for TFS determination
- Landowner should submit evidence to the TFS to support their claims

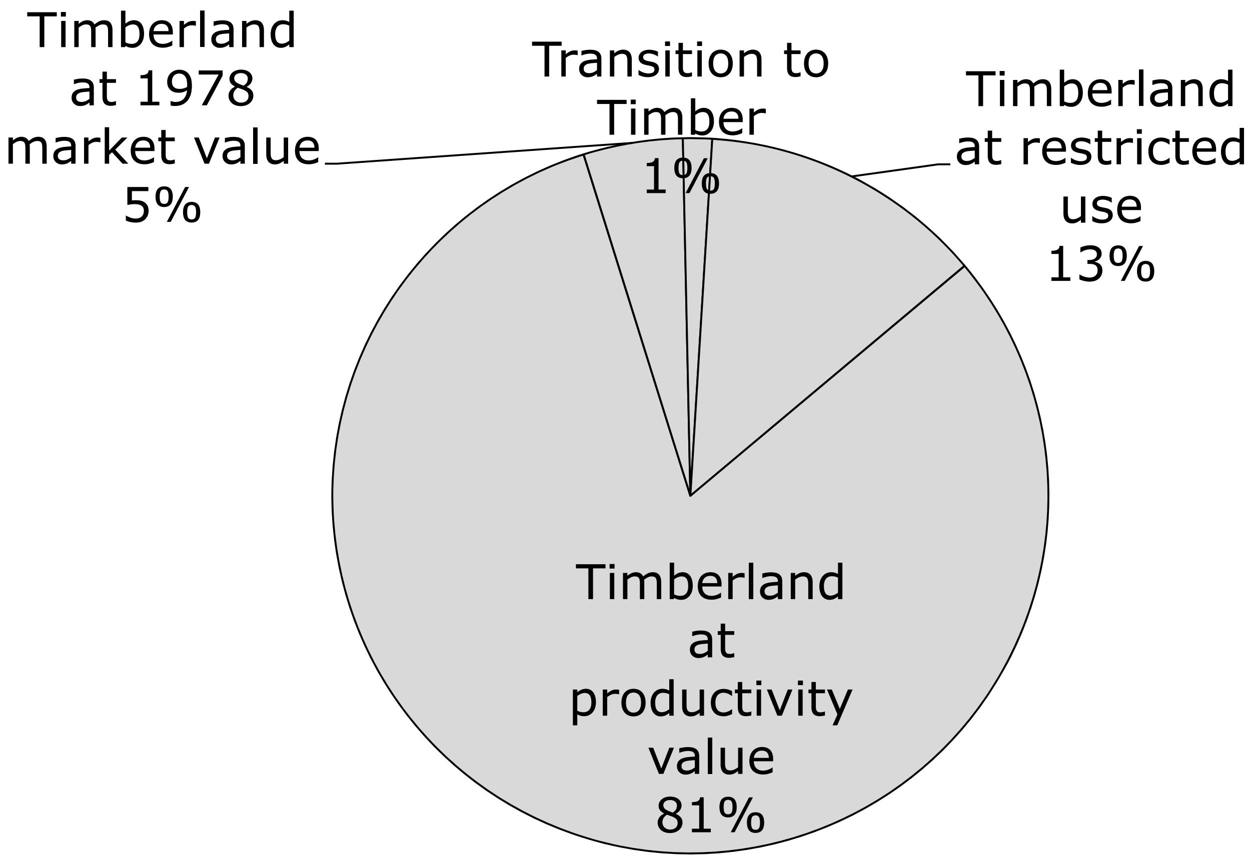
AMZ – Special or Unique

- Landowner seeks TFS determination first
- Upon approval, apply with appraisal district offices

Old-growth forest

Historical site

Timberland Special Appraisal
(7.6 million acres)



Landowner’s Role

- File timely application
- Notify appraisal districts about ownership changes, eligibility changes
- Pay tax

Rollback Tax Penalty on Land Use Changes

- Up to 5-year rollback taxes plus annual interest @ 7%
- Not land use changes:
  - Sale for right of way
  - Condemnation
  - Transferred for public use by government
  - Agricultural use

Landowner’s Rights

- Your land should be taxed at timber value if it qualifies
- You should be informed about a taxing unit’s proposed tax rate increase and have an opportunity to comment
- Protest to ARB (Appraisal Review Board)
- Binding arbitration in court

81st Session Legislation and Forest Landowners

- SB 801

  Extends wildlife management valuation to timberland

SB 801

- Qualified timberland can be converted to wildlife management use **directly**
- Appraised at the same category before conversion
- Effect on Jan. 2010

SB 801— Eligibility

- Timber-use before conversion
- At least 3 of the 7 management practices for wild animals for human use
  - Erosion control
  - Habitat control
  - Predator control
  - Providing supplemental water supplies
  - Providing supplemental food supplies
  - Providing shelters
  - Making census counts to determine population

SB 801— Application

- Complete 1-d-1 Open-Space Agricultural Appraisal form and select wildlife management option
- Attach a wildlife management plan on a form developed by TPWD
- Other documents required by CAD
- Submit application

New Registration Requirement on Sales Tax Exemption

- HB 268, 82^{nd} session, 2011
- Beginning Jan.1, 2012, purchasers wishing to claim an exemption from Texas sales tax on qualifying items used in the commercial production of timber products must have a registration number issued by the Comptroller's Office

New Registration Requirement on Sales Tax Exemption (con't)

- Changes the process used to claim the timber sales tax exemption
- No change to the types of items that qualify for exemption, or who is entitled to claim the exemption

You Need A Registration Number If:

- You are engaged in the production of timber products for sale in the regular course of business

AND

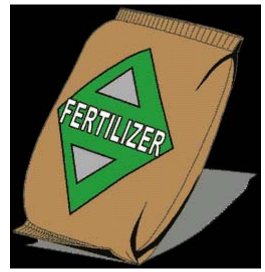
- Want to claim an exemption from sales tax on items used in the production

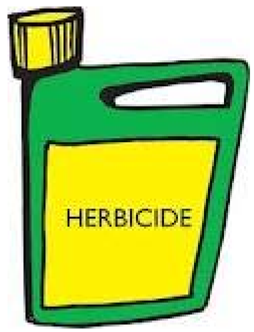
Who Can Obtain A Number?

Persons engaged in the production of timber products for sale in the regular course of business are eligible for an AgTimber number:

- Original producers
- Custom loggers
- Consulting foresters

Eligible Items





How to Get A Registration Number?

- Online registration (GetReadyTexas.org)
- Paper application (AP-228 Application for Texas Agricultural and Timber Exemption Registration Number)
- Call 800-252-5555 to request a form

New Timber Operations Sales and Use Tax Exemption Certificate

- Form 01-925
- Purchasers claiming an exemption are required to use the new form

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