Presentation at the 2021 Texas Timber Workshop

*Timberland Property Tax in Texas*

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Property Tax Assistance Division

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Outline

• What is timberland valuation?
• How does your land qualify?
• How is your land appraised once it qualifies?
• What happens after your land qualifies?

• Manual for the Appraisal of Timberland
  Updated
What is timberland valuation?
Timberland Property Tax in Texas

• Ad valorem tax

\[
\text{Property Tax} = \text{Timberland Productivity Value} \times \text{Tax Rate}
\]

- County Appraisal Districts
- Taxing Units
**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.

Property tax = $200 \times 10 \times 3 /100 = $60
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 statutory capitalization rate”

— the Manual
Timberland Productivity Value Years

• 2021 Productivity Value based on:
  – Years 2020 to 2016

• 2020 Productivity Value was based on:
  – Years 2019 to 2015
Timberland Property Tax

• Local tax, not state tax

• Tax on timberland, not the timber

• Barns, sheds, etc. taxed at market value
  – Land beneath them taxed at productive value if used for production
Total Timber Acres in Texas

Source: State Comptroller of Public Accounts
Market Value vs. Productivity Value

Source: Texas Comptroller of Public Accounts
How does land qualify?
Eligibility Requirements for Land

1. Currently & actively devoted to timber production
2. Be used principally for timber production
3. Devoted to the degree of intensity generally accepted for the area
4. Dedicated principally to ag or timber production for 5 of the 7 preceding years
5. Owner must have the intent to produce income
6. Owner must file a timely application
Land Located within City Limits

• City must not provide land with general services comparable to other parts of the city/town having similar features & population

• Land must have been devoted principally to ag or timber production continuously for the preceding 5 years
Applying for Timber Valuation

• Can use the Comptroller’s form 50-167
• If land is in two counties, must apply to both appraisal districts
• File a single application for all tracts in a unit
• Application must be filed or postmarked no later than midnight on April 30th
• Burden of proof is on landowner
• One-time application
Chief Appraiser’s Actions

• Approve the application
• Disapprove it & ask for more information
  – Applicant has 30 days to provide additional info
• Deny the application
  – Must notify applicant within 5 days by certified mail
How is your land appraised?
Timberland Valuation

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

- Timber at Productivity, 83%
- Transition to Timber, 3%
- Timber at 1978, 3%
- Timber at Restricted Use, 12%

8,071,560 Acres

Source: Texas Comptroller of Public Accounts
Timber in Transition

• Agricultural land ➔ timber use
• Tax benefit: 15 years as agricultural land
• In the 16th year, timber use applies
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
2019 Timber Class Acreage

Source: Texas Comptroller of Public Accounts
## PTAD 2020 Timber Values

<table>
<thead>
<tr>
<th></th>
<th>Pine</th>
<th>Mixed</th>
<th>Hardwood</th>
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</thead>
<tbody>
<tr>
<td>I</td>
<td>$496.43</td>
<td>279.95</td>
<td>157.55</td>
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<tr>
<td>II</td>
<td>313.05</td>
<td>167.58</td>
<td>68.54</td>
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<td>III</td>
<td>233.52</td>
<td>94.09</td>
<td>39.97</td>
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<tr>
<td>IV</td>
<td>208.10</td>
<td>57.14</td>
<td>9.89</td>
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</tbody>
</table>

*Source: Texas Comptroller of Public Accounts*
Timberland Productivity Value

Timber-use Value:

\[(\text{Timber Price} \times \text{Timber Growth}) - \text{Management Costs}\]

\[= \frac{\text{Average Annual Net Income}}{\text{Cap Rate}}\]

Capitalization of net annual income

Based on productivity, potential income
## Tax Year

### 2020

### Five Year Period

- 2015
- 2016
- 2017
- 2018
- 2019

### Cap Rate

7.28%

### Stumpage Prices

<table>
<thead>
<tr>
<th></th>
<th>Large Pine Sawtimber</th>
<th>Small Pine Sawtimber</th>
<th>Hardwood Sawtimber</th>
<th>Pine Pulpwood</th>
<th>Hardwood Pulpwood</th>
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<tbody>
<tr>
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<td>Unweighted</td>
<td>Weighted</td>
<td>Unweighted</td>
<td>Weighted</td>
<td>Unweighted</td>
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<tr>
<td>2015</td>
<td>$35.29</td>
<td>$29.95</td>
<td>$14.70</td>
<td>$14.53</td>
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<td>2017</td>
<td>$26.43</td>
<td>$25.54</td>
<td>$10.92</td>
<td>$9.75</td>
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<td>2018</td>
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<td>2019</td>
<td>$26.57</td>
<td>$30.42</td>
<td>$13.16</td>
<td>$14.74</td>
<td>$35.41</td>
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</tbody>
</table>

### Management Costs East Texas

<table>
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<tr>
<th></th>
<th>Pine</th>
<th>Mixed</th>
<th>Hardwood</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>I</td>
<td>II</td>
<td>III</td>
</tr>
<tr>
<td>2015</td>
<td>41.15</td>
<td>35.00</td>
<td>22.56</td>
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<td>2016</td>
<td>40.76</td>
<td>34.87</td>
<td>22.90</td>
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<tr>
<td>2017</td>
<td>41.72</td>
<td>35.71</td>
<td>23.52</td>
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<tr>
<td>2019</td>
<td>44.07</td>
<td>37.82</td>
<td>24.59</td>
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Restricted-Use Timberland Valuation
Two ways to Qualify for Restricted-Use

• Reforested land

• Special forest zones

• To apply: Can use Comptroller form 50-281
Reforested Land

• 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

- 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

• Timberland determined as special or unique for aesthetic purpose

• Two types:
  ❖ Special or unique area
    Natural beauty, topography, historical significance
  ❖ Public rights-of-way
    Highway or other public road, public use area (park, cemetery, school...)

Timberland determined as special or unique for aesthetic purpose

Two types:

Special or unique area
- Natural beauty, topography, historical significance

Public rights-of-way
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AMZ – Special or Unique

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

Old-growth forest

Historical site
TFS Recommended Criteria for AMZ Special or Unique

• Must have attributes, such as:
  – Archaeological sites
  – Rare geological formations
  – Unique:
    • Scenic beauty
    • Plant or animal communities
• Recommended by a qualified specialist
• Harvest Restrictions:
  – Could be totally restricted
  – Management plan addresses it
  – BA ≥ 50 ft²/acre
  – May be regenerated using different methods
• Land is appraised as timber-use
TFS Recommended Criteria for AMZ Public Rights of Way

- Zone width: 100-200 ft.
- Management plan
- 10 years old or 35 ft. tall
- Harvest restriction (BA≥50 ft²/acre)
**Critical Wildlife Habitat Zone (CWHZ)**

Timberland on which timber harvest is restricted:
- 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
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
- Boundaries self-evident or marked
- Trees 10 years old or more
- 300 trees per acre
- Minimum 50 ft$^2$ / acre basal area
- Management plan
When CA Questions a Restricted-use 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
Timber at 1978 Value
Timber at 1978 Value

• Minimum taxable value of qualifying timberland.
• Market value assigned to the land by the taxing unit in 1978.
• Does not apply to timber at restricted-use.
What happens after you qualify?
Continue to Qualify

• Ownership changes
• Land’s eligibility changes
• Chief appraiser asks for a new application

• Convert to Wildlife Management
Rollback Tax Penalty on Land Use Changes

• 3-year rollback taxes plus annual interest @ 5%

• Changes of Use:
  – Land taken completely out of timber use by owner’s free choice
  – Physical change

• Not considered a change of use:
  – Sale for right of way
  – Condemnation
  – Transferred for public use by government
  – Agricultural use
  – Reducing intensity below typical levels
Cessation of Timberland Production

• Portions of Property:
  – Roads, right-of-way, buffer areas or firebreaks
  – Subject to a right-of-way taken through the use of eminent domain

• Oil & Gas Operations:
  – A lessee conducting oil & gas (O&G) operations over which the Texas Railroad Commission has jurisdiction
  – Pad sites, oil field roads, electric lines to O&G operations, pipelines and tank batteries
Manual for the Appraisal of Timberland

Updated!!
Updates

• Statutory changes
• Relevant case law
• Current prices, expenses and values
• Updated organizational names as needed
• Added footnotes
Helpful Websites

• Property Tax Assistance Division’s Ag & Timber Taxation: https://comptroller.texas.gov/taxes/property-tax/ag-timber/index.php

• Comptroller Forms: https://comptroller.texas.gov/taxes/property-tax/forms/

• Texas A&M Forest Service: http://tfsweb.tamu.edu/

• TPWD’s Endangered Species List: https://tpwd.texas.gov/huntwild/wild/wildlife_diversity/nongame/listed-species/

• TPWD Wildlife Management: https://tpwd.texas.gov/landwater/land/private/agricultural_land/

• Railroad Commission of Texas: https://www.rrc.state.tx.us/
Questions?

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