

Presentation at the 2022 Texas Timber Workshop

Timberland Property Tax in Texas

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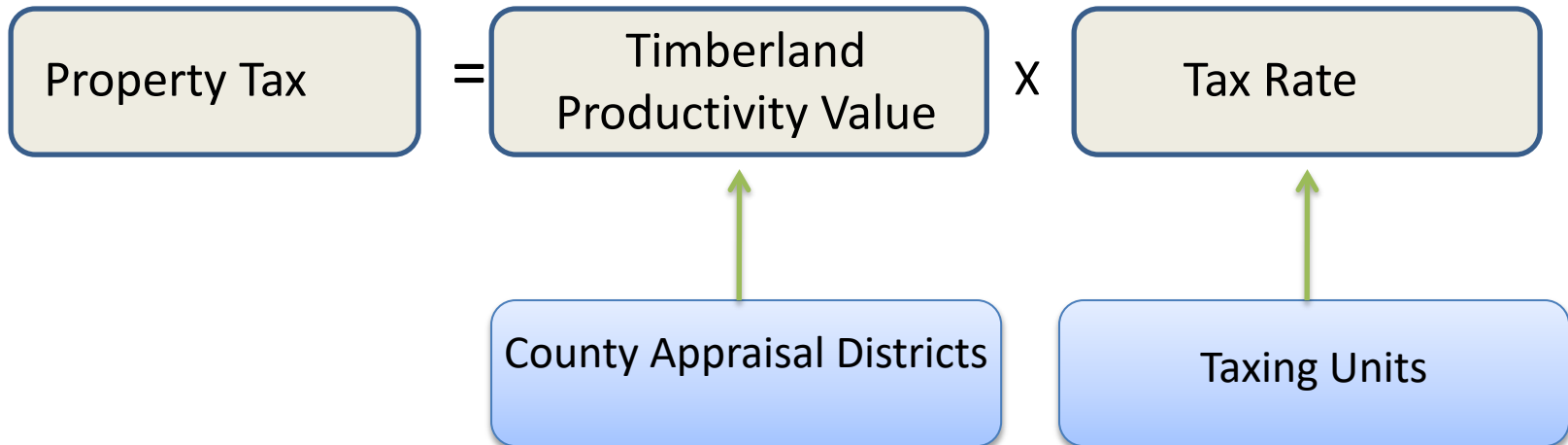
Outline

- What is timberland valuation?
- How does your land qualify?
- How is your land appraised once it qualifies?
- What happens after your land qualifies?
- Timber Bills from the 87th Legislative Session

What is timberland valuation?

Timberland Property Tax in Texas

- Ad valorem tax



Overall Timberland Property Groups

- Subchapter D:
 - Timberland in Transition (§23.59)
- Subchapter E:
 - Timberland at Productivity
 - Timber at 1978 (§23.78)
- Subchapter H: Restricted-Use Timberland

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

$$\text{Property tax} = \$200 \times 10 \times 3 / 100 = \$60$$

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

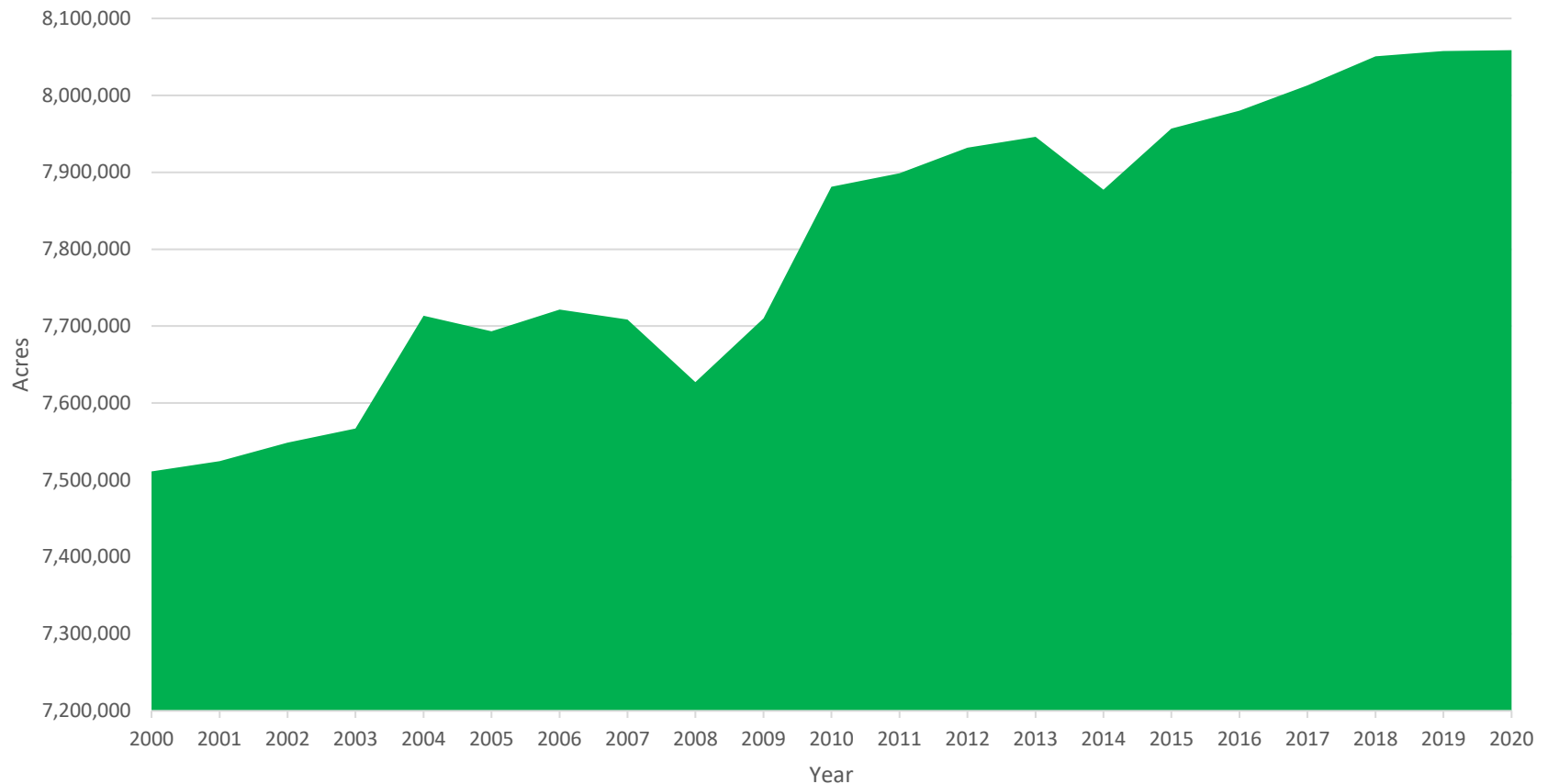
Timberland Productivity Value Years

- 2022 Productivity Value based on:
 - Years 2021 to 2017
- 2021 Productivity Value was based on:
 - Years 2020 to 2016

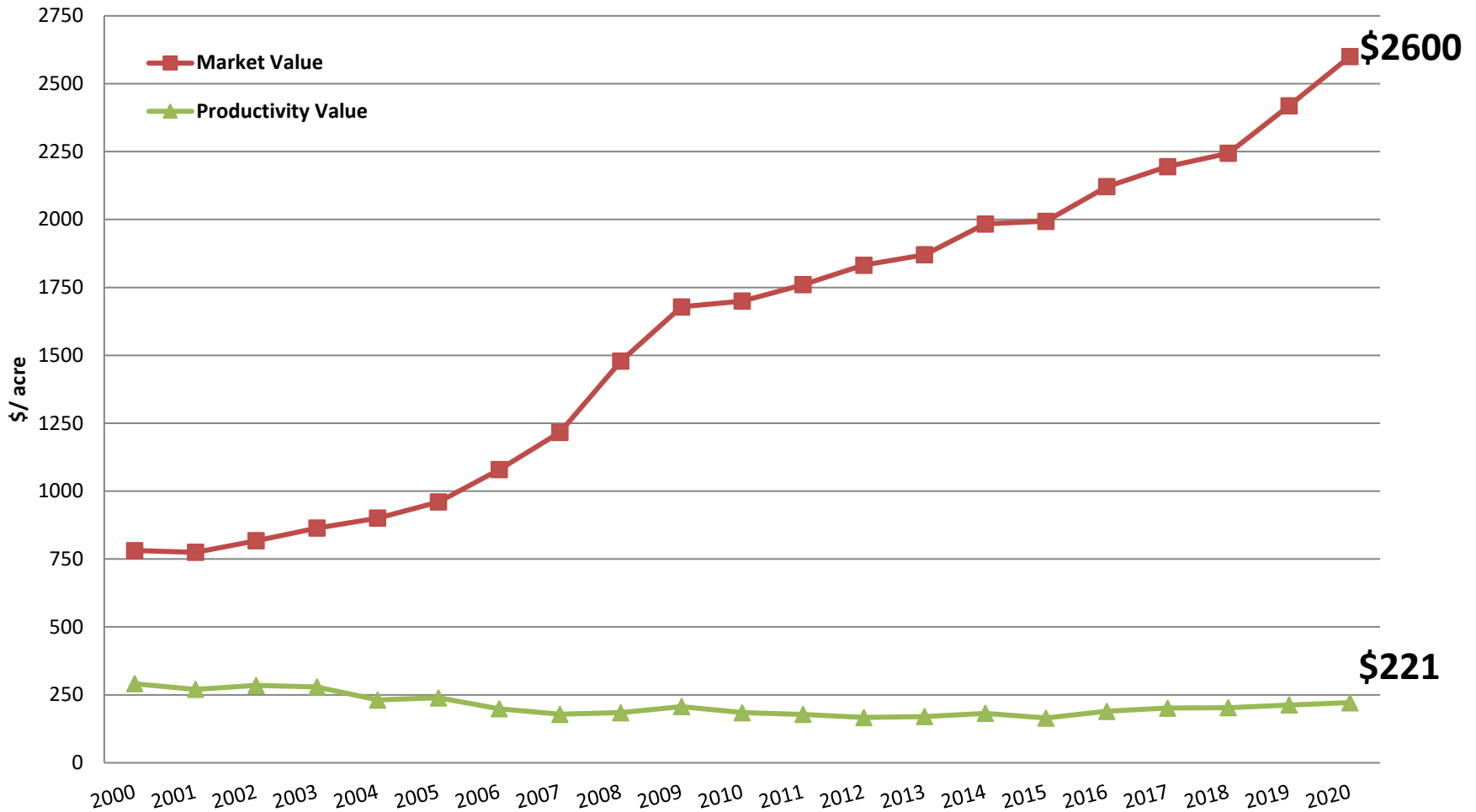
Timberland Property Tax

- 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



Market Value vs. Productivity Value



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

1. Approve the application
2. Disapprove it & ask for more information
 1. Deliver written notice of request ASAP but not later than the 30th day of filing
 2. Applicant must provide info no later than the 30th day of request, or the application is denied
3. Deny the application
 - Must notify applicant not later than 5th day of the determination by certified mail

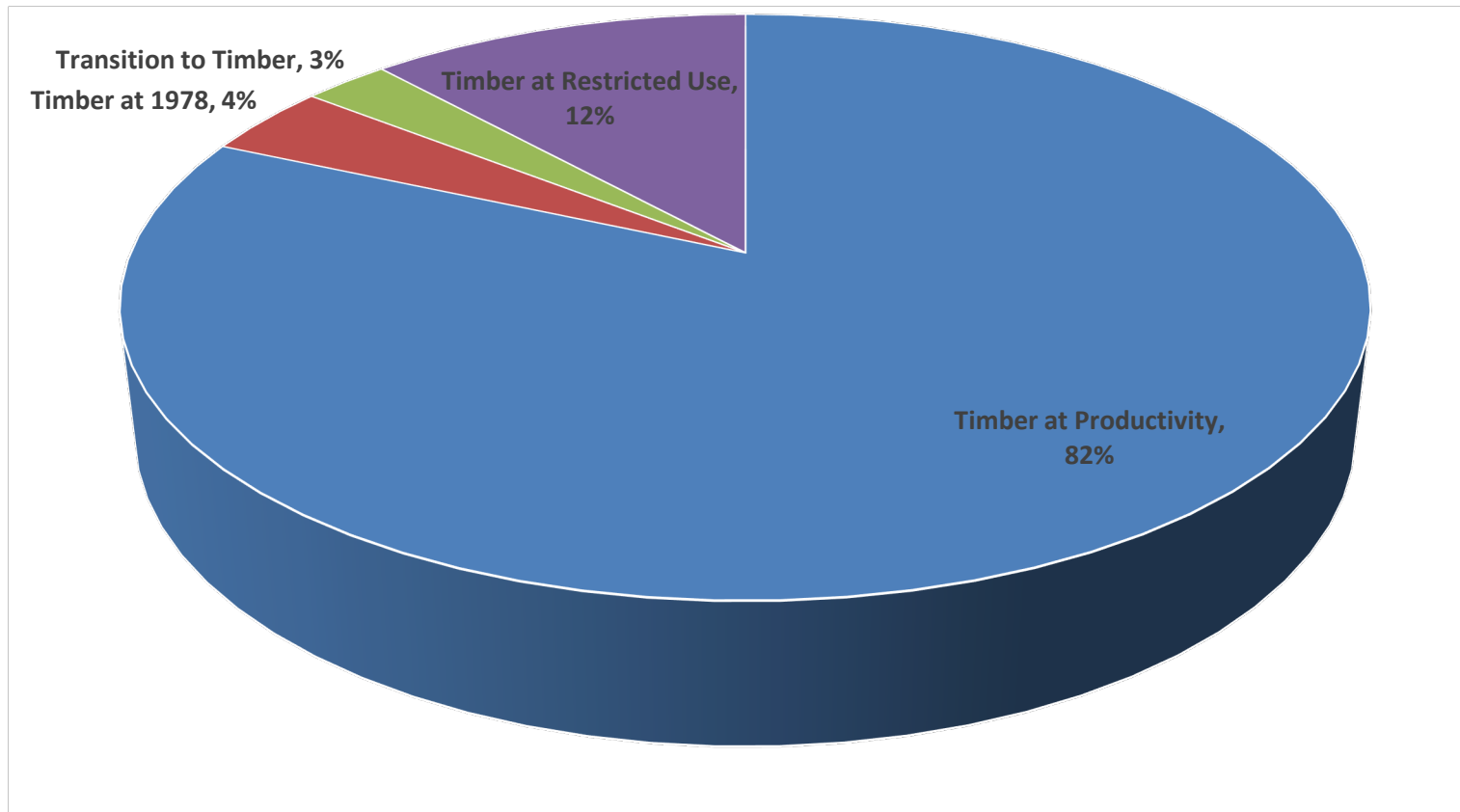


How is your land appraised?

Timberland Valuation

- Market value
- Timber in transition value (D - §23.59)
- Timberland productivity value (Subchapter E)
- Restricted-use value (Subchapter H)
- 1978 market value (E - §23.78)

Timberland in Texas



8,058,641 Acres

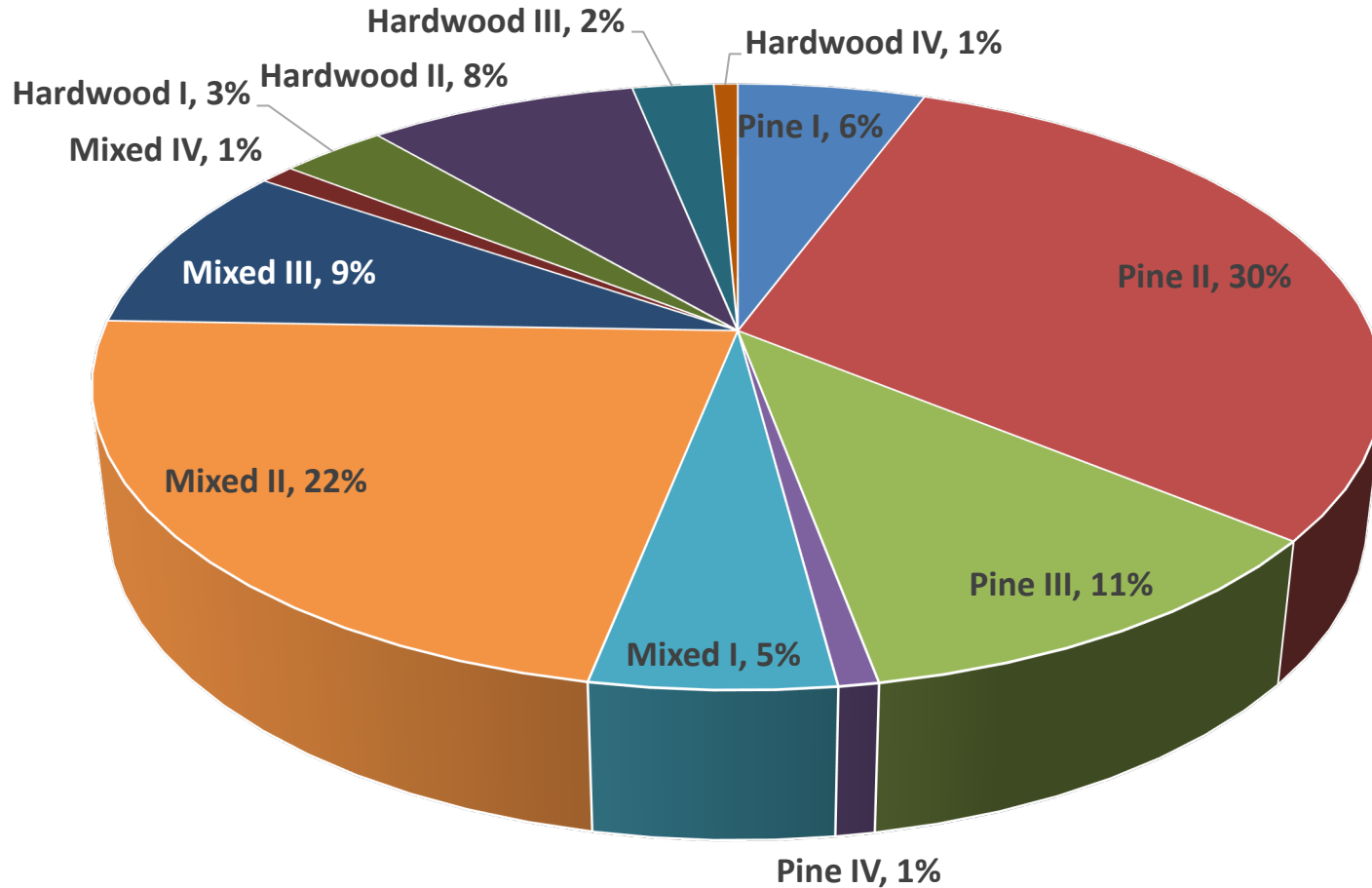
Timber in Transition

- 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

2020 Timber Categories Acreage



6,578,410 acres

PTAD 2020 Timber Values

	Pine	Mixed	Hardwood
I	\$496.43	279.95	157.55
II	313.05	167.58	68.54
III	233.52	94.09	39.97
IV	208.10	57.14	9.89

Timberland Productivity Value

Timber-use Value:

Average Annual Net
Income

(Timber Price X Timber Growth) – Management Costs

=

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

	Large Pine Sawtimber		Small Pine Sawtimber		Hardwood Sawtimber		Pine Pulpwood		Hardwood Pulpwood	
	Unweighted	Weighted	Unweighted	Weighted	Unweighted	Weighted	Unweighted	Weighted	Unweighted	Weighted
2015	\$35.29	\$29.95	\$14.70	\$14.53	\$39.82	\$40.02	\$9.06	\$9.39	\$14.40	\$16.27
2016	\$29.35	\$26.99	\$13.37	\$12.70	\$37.54	\$39.78	\$8.94	\$9.14	\$9.69	\$10.62
2017	\$26.43	\$25.54	\$10.92	\$9.75	\$27.80	\$30.95	\$7.91	\$7.91	\$8.71	\$9.38
2018	\$23.91	\$28.74	\$12.41	\$13.80	\$29.96	\$29.86	\$6.95	\$7.16	\$10.21	\$9.81
2019	\$26.57	\$30.42	\$13.16	\$14.74	\$35.41	\$35.36	\$8.37	\$9.95	\$13.77	\$13.21

Management Costs East Texas

	Pine				Mixed				Hardwood			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
2015	41.15	35.00	22.56	13.01	31.26	26.48	19.48	14.48	25.19	23.22	16.22	12.56
2016	40.76	34.87	22.90	13.03	29.86	25.33	19.03	13.86	24.70	21.97	15.59	12.13
2017	41.72	35.71	23.52	13.38	29.46	25.22	18.95	13.75	24.02	21.30	15.09	11.84
2018	43.01	36.88	24.26	13.97	29.93	25.84	19.40	14.34	24.25	21.53	15.47	12.29
2019	44.07	37.82	24.59	13.70	31.06	26.71	20.26	15.32	26.41	23.80	17.37	13.97





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

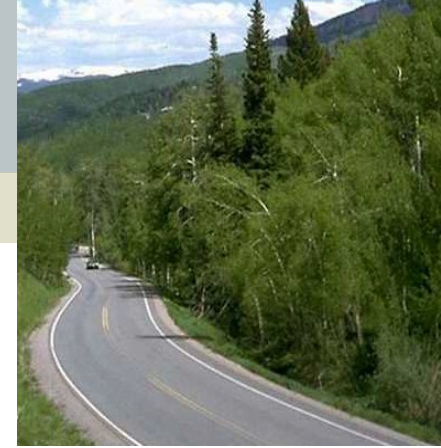
TFS Recommended Criteria for Reforested Land Appraisal

- 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...)

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
 - $BA \geq 50 \text{ ft}^2 / \text{acre}$
 - 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 ($BA \geq 50 \text{ ft}^2 / \text{acre}$)



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)



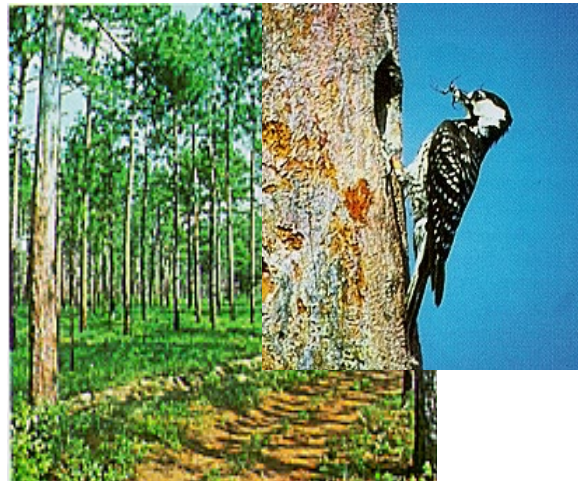
TFS Recommended Criteria for SMZ

- 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 ft² / 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
 - Restricted-Use Timberland CANNOT

Change of Use/Rollback

- Determined by chief appraiser
- Notification:
 - Written notice must be delivered to landowner
- Change of Use can be Protested to the ARB
 - Protest must be filed within 30 days of delivery
- Due Date:
 - Due when the rollback tax bill is mailed
 - Becomes delinquent if not paid before the next Feb. 1 that is at least 20 days after the tax bill is mailed.

Rollback Tax Penalty on Land Use Changes

- Rollback Tax: Difference between the taxes paid at productivity appraisal versus what they would have been at market value for the 3 previous years

Example of Rollback Tax Calculation

Tax Year	Tax Paid	Tax on Market Value	Difference
2021	\$150	\$1000	\$850
2020	125	900	775
2019	100	600	500
Total			\$ 2,125

Changes of Use

- 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
 - Reduced intensity due to acts of nature

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

Timber Bills from the 87th Legislative Session

87th Legislative Regular Session

- Total Bills Filed: 7,148
- Ag/Timber Bills Filed: 28
- Ag/Timber Bills Signed into Law: 5
 - 1 Ag/Timber Bill vetoed by the Governor

SB 63

- Author: Nelson
- Effective Date: September 1, 2021
- Tax Code Subchapters Affected:
 - Subchapter C: §23.44(a), (b) and (d)
 - Subchapter D: §23.57(a), (b) and (d)
 - Subchapter E: §23.79(a), (b) and (d)
 - Subchapter H: §23.9805(a), (b) and (d)

SB 63

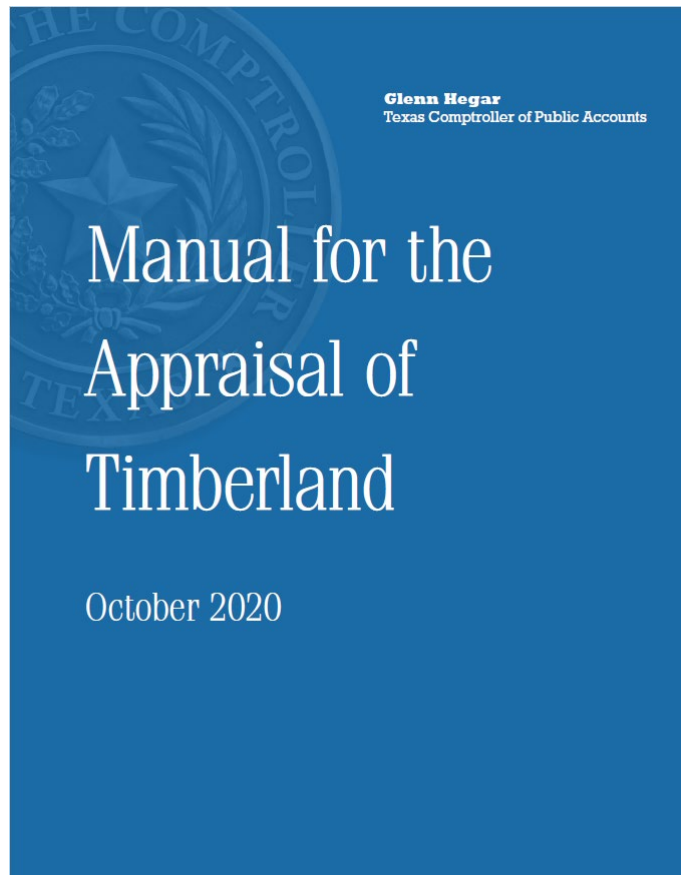
- Main Issue: Application and deadlines
 - (a): CAD; ASAP not later than 90th day of either date of eligibility or the date necessary info provided to
 1. Approve the application
 2. Disapprove & ask for more information
 3. Deny the application
 - (b): CAD has 30 days after application is filed to notify the applicant in writing of need for additional information
 - Applicant has 30 days to supply the info
 - If not, then application is denied
 - (d): CAD shall deliver a written notice not later than 5 days of the date of the denial
 - Notice must state and fully explain each reason for the denial

HB 3833

- Author: Phil King, Burrows, Shine, Rogers & Harris
- Effective Date: Immediately
- Main Issue: Change of Use/Rollback
- Tax Code Subchapters Affected:
 - Subchapter D:
 - Amended §23.55(a), (b), (e), (f), (m) & (n)
 - (a): Removed interest at annual rate of 5%
 - (b): Added interest if tax becomes delinquent
 - (e), (f), (m) & (n): Removed interest
 - 23.58(c) & (d)

HB 3833

- Tax Code Subchapters Affected (cont.):
 - Subchapter E: Amended §23.76(a), (b) & (e)
 - (a): Removed interest at annual rate of 5%
 - (b): Added interest if tax becomes delinquent
 - (e): Removed interest
 - Subchapter H: Amended §23.9807(a), (b), (c) & (f)
 - (a): Changed years from 5 to 3
 - (b): Removed interest at annual rate of 7%
 - (c): Added interest if tax becomes delinquent
 - (f): Removed interest



*Currently Updating the
Manual for the Appraisal of
Timberland*

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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