Presentation at the 2023 Texas Timber Workshop

Timberland Property Tax in Texas

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Texas Comptroller of Public Accounts

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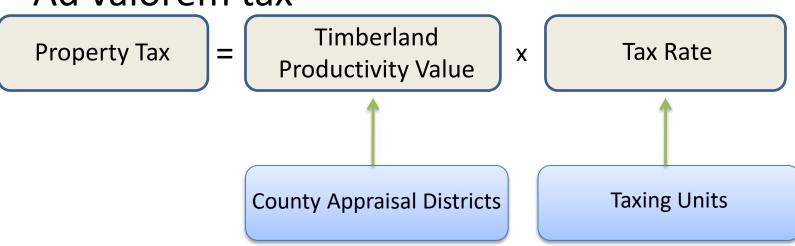
Outline

- What is timberland valuation?
- Ways for Land to Qualify
- Change in Use & Rollback
- The 88th Legislative Session



Timberland Property Tax in Texas

Ad valorem tax



Timberland Property Tax

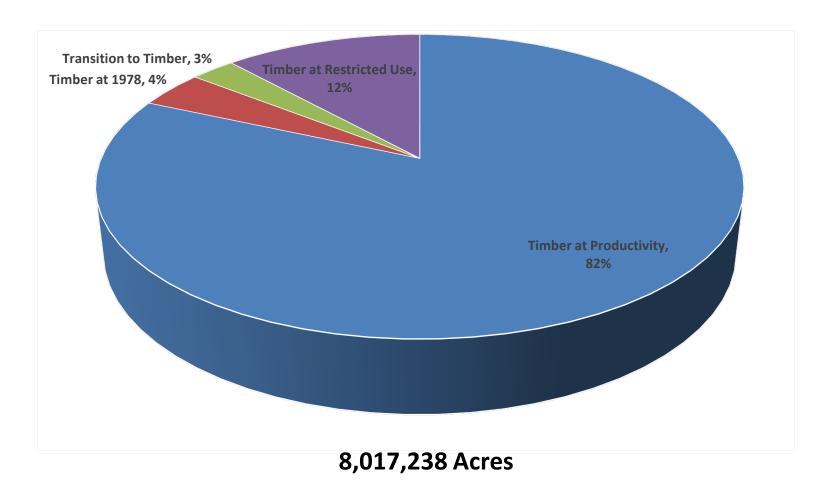
Suppose a 10-acre pine tract is appraised at \$200/acre, and the tax rate set by the TA in the county is \$3 per \$100 value

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

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 in Texas



Timberland Productivity Value

"Equals the <u>average annual net income</u> a <u>prudent manager</u> could earn from growing timber over the <u>5-year period</u> preceding the appraisal's effective year, divided by a statutory <u>capitalization rate</u>"

Manual for the Appraisal of Timberland

Timberland Productivity Value Years

- 2023 Productivity Value based on:
 - Years 2022 to 2018

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

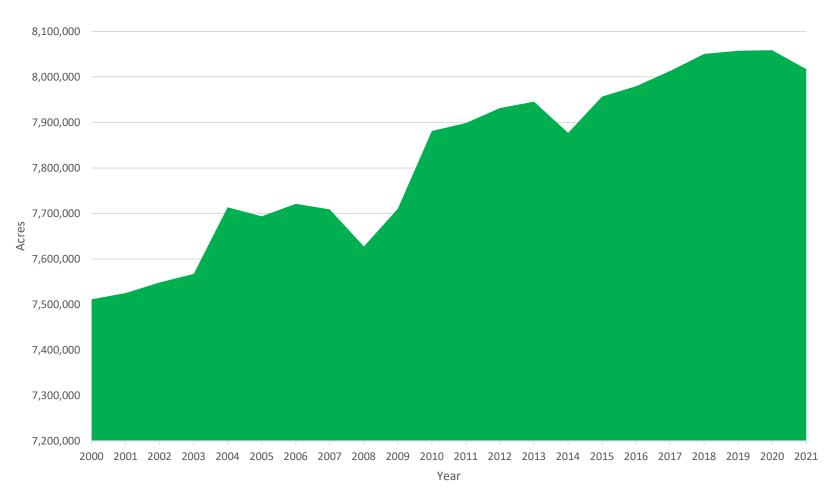
Timberland Property Tax

Local tax, not state tax

Tax on timberland, not the timber

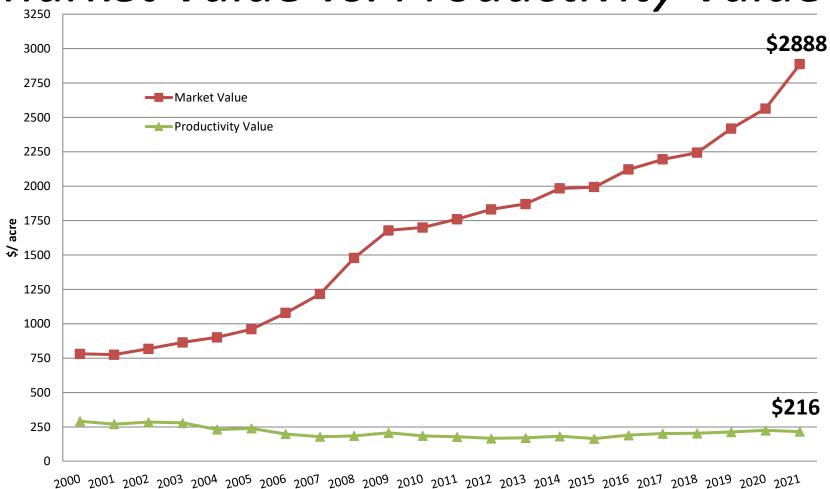
- Barns, sheds, etc. taxed at market value
 - Land beneath them taxed at productive value <u>IF</u> used for production

Total Timber Acres in Texas



Source: State Comptroller of Public Accounts

Market Value vs. Productivity Value



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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

Pine Forest Counties

Legend

Total Pine Acreage

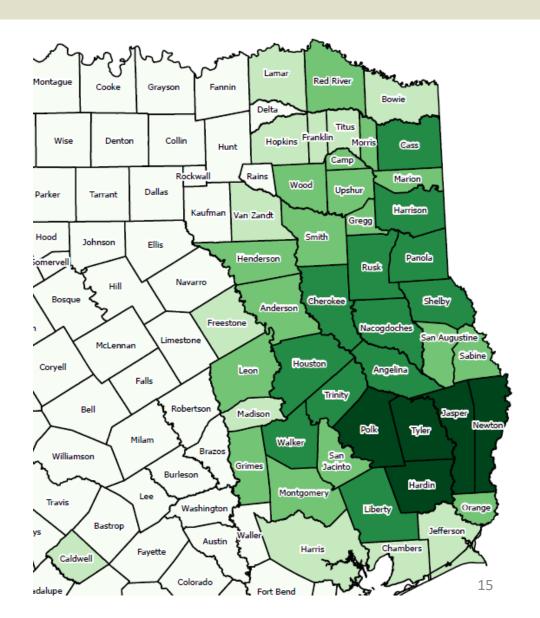
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1 - 5,000

5,001 - 70,000

70,001 - 145,000

145,001 - 300,000



Hardwood Forest Counties

Legend

Total Hardwood Acres

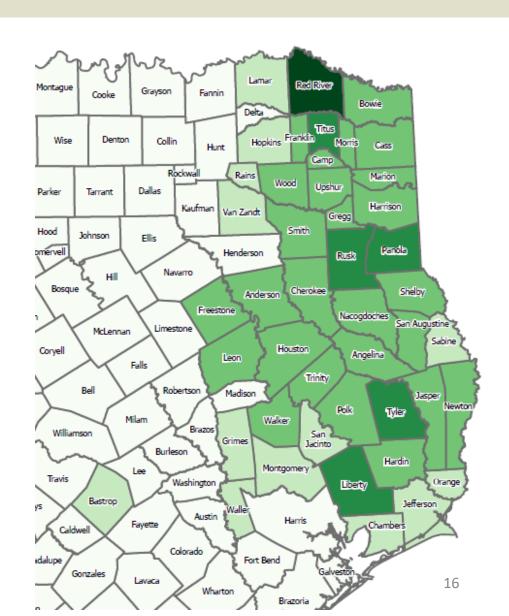
0

1 - 5,000

5,001 - 40,000

40,001 - 75,000

75,001 - 120,000



Mixed Forest Counties

Legend

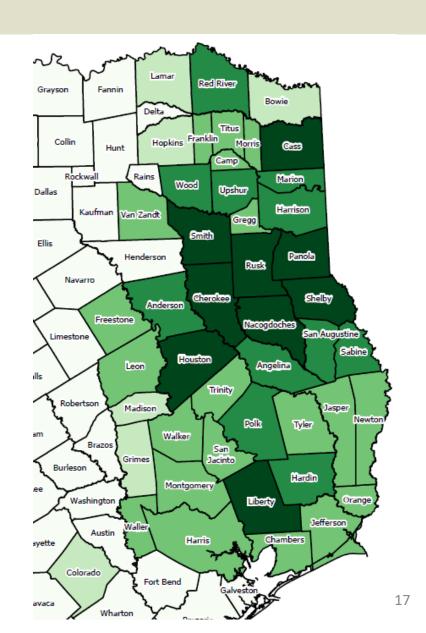
Total Mixed Acreage

0 1 - 5,000

5,001 - 50,000

50,001 - 100,000

100,001 - 250,000





Timberland Valuation

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

Timber in Transition

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

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 timberuse 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≥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 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



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

The 88th Legislative Session

88th Legislative Session

Total Bills Filed: 2,544

- House: 1,866

Senate: 678

Ag/Timber Bills & JR Filed: 10

- House: 7

– Senate: 3

Glenn Hegar Texas Comptroller of Public Accounts

Manual for the Appraisal of Timberland

March 2022

Officially Adopted the Manual for the Appraisal of <u>Timberland</u> on October 31, 2022.

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: <u>https://tpwd.texas.gov/huntwild/wild/wildlife_diversity/nongame/listed-species/</u>
- TPWD Wildlife Management: https://tpwd.texas.gov/landwater/land/private/agricultural_land/

