



Property Tax Relief for Forest Landowners

by Mel Baughman

Extension Forester and Program Leader, University of Minnesota,
Department of Forest Resources and University of Minnesota Extension, St. Paul, MN.

*Property taxes pay for important local government services authorized by elected officials, but they are a significant annual cost for forest landowners. Landowners may not fully recover management investments, including property taxes, when trees grow 30 to 100 years before harvest and ownership changes about every 20 years. In addition, your land management provides wildlife habitat, watershed protection, aesthetics, and biodiversity that benefit many Minnesotans who pay no forest management costs. Because of the public benefits your forest land provides, the Minnesota Legislature created the **Sustainable Forest Incentive Act (SFIA)** and the **2c Managed Forest Land Classification (Class 2c)** to reduce ownership costs on sustainably managed forest land. This publication explains these laws to help you decide whether one or the other fits your needs.*



Woodland owners may qualify for property tax reductions or incentives to practice stewardship on their forests.

How Your Property Tax Is Determined

Review your current property tax statement for a summary of how your tax was determined. Some of these steps may be applied to your land:

1. Estimated market value determined by assessor.
2. Plus value of new improvements, if any.
3. Minus limited value deductions, if any.
4. Equals taxable market value.
5. Multiplied times class rate percentage.
6. Equals property tax before state aid and credits.
7. Minus deductions for state aid, homestead and agricultural credits, if any.
8. Plus special assessments, if any.
9. Equals property tax payable.

Step 5 involving the class rate percentage is one step that a forest landowner may influence. The lower your class rate percentage, the lower your property tax. Below are class rates that most commonly apply to family forest land in 2009, depending on the property's current use.

Class Rate %	Class Description
0.50%	2a. Agricultural Homestead (farmland only, not considering house, garage and one acre): first \$890,000
1.00%	over \$890,000
1.00%	2b. Rural Vacant Land and Non-homestead Agricultural Land
0.65%	2c. Managed Forest Land
1.00%	4c(1). Seasonal residential recreational, non-commercial first \$500,000
1.25%	over \$500,000

(Note: Other class rates and descriptions not shown here may apply to certain commercial uses of land that may be forested.)

As a forest owner, you should insist that your property be correctly classified according to its current use so that you pay a fair tax and no more. Enrolling your forest land in SFIA or Class 2c offers cost savings to some landowners.

Sustainable Forest Incentive Act (SFIA)

The Sustainable Forest Incentive Act, passed in 2001, allows annual payments from the Minnesota Department of Revenue (MN DOR) to enrolled owners of forested land as an incentive to practice long-term sustainable forest management. This is not a property tax classification or rebate; it is an incentive payment. Landowners may use funds any way they wish, but you may think of such payments as an offset to property taxes since the amount of this payment is related to average property taxes on forest land.



*Giving your land a hand can yield big benefits.
Photo by Eli Sagor.*

Qualifications

To enroll, these requirements must be met:

- You must own 20 or more contiguous acres of land in Minnesota, of which at least 50 percent is *forested*.
 - *Forest land* means land at least ten percent stocked by trees of any size and capable of producing timber, or of exerting an influence on the climate or on the water regime; land from which the trees described above have been removed to less than ten percent stocking and which has not been developed for other use; and afforested areas.
 - There is no maximum acreage, but ownerships greater than 1,920 acres must allow year-round, nonmotorized public access to fish and wildlife resources, except in areas within one-fourth mile of a permanent dwelling or during periods of high fire danger—determined by the Minnesota Department of Natural Resources (MN DNR). Landowners required to allow access do not by that action: Extend any assurance that the land is safe for any purpose; confer upon the person the legal status of an invitee or licensee to whom a duty of care is owed; or assume responsibility for or incur liability for any injury to the person or property caused by an act or omission of the person.
 - You may not enroll residential land or agricultural land used for agricultural purposes (e.g., pasture, hayfields and cropland), or land improved with pavement, sewer, roads, campsites, and other improvements not required for forest management activities. Camping is allowed on SFIA enrolled land so long as it does not alter management of the surrounding area.
- A building or structure used exclusively for management activities may be included. An example would be a shed or building that only houses equipment used during management activities. If the building also is used as a temporary or permanent dwelling or is used to store items not regularly used for management purposes, at least three acres of land around it must be excluded from the enrolled acres.
- Any portion of a parcel of land that has improvements that are not necessary for sustainable forest management must be deducted from the total acres. The minimum deduction is three acres for each area excluded. After deductions for exclusions there must be a minimum of 20 contiguous acres to be eligible. Note that after the minimum contiguous acres are met, additional tracts may be included in the same plan, even if they are not contiguous.
- Open water, including rivers, that are less than three acres in size can be included as part of the forested land. Larger areas must be excluded. Marshes and other wetlands not capable of growing trees, but due to their existence have a significant impact on forested land, are eligible for SFIA. This also includes land that may have been an agricultural field in the past, but has recently been planted for reforestation.
- An owner may be a private individual, corporation, or partnership. Both residents and nonresidents of Minnesota are eligible. There can be only one claimant per parcel of land. If a parcel has multiple owners, they must decide which one will receive the incentive payment.
- No delinquent property taxes are owed on the land prior to enrolling, and taxes are paid on-time while enrolled in the program.
- Land must have an active forest management plan, written within the past ten years, that was prepared by a plan writer approved by the MN DNR.
- You certify that the land is not enrolled in Reinvest in Minnesota (RIM), Conservation Reserve Enhancement Program (CREP), Conservation Reserve Program (CRP), Green Acres, Ag Preserves, or 2c Managed Forest Land.
- You agree to be enrolled in the program for a minimum of eight years. Please note: your land does not drop out at the end of eight years. To withdraw, a request must be made to the Commissioner of Revenue. The withdrawal process takes four years. You may sell acres or the entire parcel at any time during your enrollment, but the new owner must abide by the covenant.



To be considered for SFIA payments, landowners must own 20 or more contiguous acres of land in Minnesota. At least half of this land must be forested. Other conditions must also be met.

Enrollment Procedures

Covenant: If you meet all qualifications, record a covenant with the county recorder's office (or registrar for registered land) in which your land is located pledging not to develop the land. One covenant can cover all parcels in a county that you wish to enroll even if the parcels are not contiguous. To enroll land in more than one county, record a covenant in each county where your land is located. Before you complete the covenant, exclude any area you might develop in the future. Once recorded, the county will place a covenant recording number on the front page of your covenant. Allow the county recorder two to three months to process your request.

Application: Then complete MN DOR Form TH1, Sustainable Forest Incentive Act Enrollment Application. Applications are available at the MN DOR Website and from many county and MN DNR forestry offices. Your Social Security number is required by M.S. 290C.04 to properly identify you and determine if you qualify to receive an incentive payment. Your Social Security number is private information and cannot be disclosed to others without your consent. Your federal identification number and date of birth are also private, but can be disclosed to county assessors for tax administration purposes and to county treasurers for purposes of revenue recapture. All other information is public. If you fail to provide all requested information, except your phone number, your application will be delayed or denied. Providing a daytime phone number will save time if questions arise. Both you and your approved plan writer must sign the application form. If the land is owned by a business entity or group, an authorized representative of the entity or group must sign.

Attach the following to your application:

- Copy of the recorded covenant(s).
- Exhibit A—Legal description of real property, or certificate of title number for real property for each parcel you wish to enroll.

- Exhibit B—Copy of the forest management plan map or eligible acres map that clearly shows which acres are being enrolled and any excluded acres (or an aerial photo and/or map of the vegetation and other natural features of the land clearly indicating the boundaries of the land and of the forest land) for each parcel you wish to enroll. If you enroll only a portion of the eligible acres and later want to enroll the remaining acres, your county must assign a new parcel identification number (PID) to the remaining acres. You cannot enroll additional acres using the same covenant and PID number for a parcel that is already enrolled.

The plan must include the landowner's goals for the property, parcel identification number (PID), legal description, inventory of forest cover types, map of the vegetation and boundaries, proposed future conditions, calendar of management activities, and other information pertinent to management of the forest. All management activities prescribed in the plan must meet the recommended timber harvesting and forest management guidelines created by the Minnesota Forest Resources Council. The MN DNR will work with the claimant and the plan writer to determine what is acceptable. A complete copy of the plan must be made available to the MN DOR upon request.

- Copy of the property tax statement for each qualifying parcel.



You'll need a forest management plan to apply for either SFIA payments or Class 2c status. The plan must be current (written within the past 10 years) by a MN DNR approved plan preparer.

Next Steps: Keep a copy of your application and all attachments for your records. You will need to refer to the parcel information in future years when you complete and sign your annual certification letter. The MN DOR will not be able to provide you with a copy.

Important! Your SFIA application and all required attachments must be postmarked no later than September 30 to receive an incentive payment the following year.

The MN DOR will send an approval or a denial letter within 90 days after receiving your application. If your application is denied, you can appeal. The MN DOR will send the landowner a document within 90 days of denial releasing the land from the covenant.

If your application is approved, the MN DOR will send a certification letter to each enrolled participant, by July 1 every year asking you to:

- Sign the letter, attesting that requirements and conditions for continued enrollment in the program are currently being met. (To remain eligible for payment, you must follow the calendar of management activities in your management plan to a reasonable degree.)
- Report any changes to the parcel information, and
- Return the signed certification by August 15 of that same year.

Incentive Payment

If you properly complete and return the certification by August 15 each year, you will receive your annual incentive payment on or before October 1 of the same year.

Each year the MN DOR will determine a statewide payment-per-acre rate using three formulas based on the average property tax for timberland. The formula that provides the largest payment-per-acre will be used. The minimum amount per acre is \$ 7.00, as of April 2008. The actual payment in 2008 was \$ 8.61 per acre.

The total amount each participant will receive is determined by multiplying the payment-per-acre by the number of enrolled acres. **This payment is taxable income.**

If you owe delinquent taxes on property not enrolled in SFIA or if you owe criminal fines or a debt to a state or county agency, district court, qualifying hospital or public library, state law may require the MN DOR to apply your incentive payment to the amount you owe (including penalty and interest on the taxes). Your Social Security number may be used to identify you as the correct debtor. If your debt is less than your incentive payment, you will receive the difference.

If you owe delinquent taxes on any enrolled land, your land will be removed immediately from the program. The MN DOR will notify you of the removal and you'll have 60 days from the notice date in which to pay the delinquent taxes. If you pay the delinquent taxes within the 60-day period, your lands will be reinstated without penalty. Lands terminated from the SFIA program due to delinquent property taxes are not entitled to any payments and are subject to removal penalties. The covenant will remain on the land until you apply for a release and then wait four years.

Violating the Covenant

Minnesota Statutes, section 290C.11(a) provides that if the Commissioner of Revenue determines that land enrolled in SFIA violates conditions for enrollment, the Commissioner shall notify the claimant of his/her intent to remove all enrolled land from the SFIA Program. Upon notification, the claimant has 60 days to administratively appeal the determination. If the Commissioner denies the appeal, the claimant may appeal to tax court.

Landowners must abide by forest management guidelines created by the Minnesota Forest Resources Council. A MN DOR ruling states that in determining whether land enrolled in SFIA violates the Guidelines, the Commissioner (MN DOR) shall consider:

- The cause of the violation.
- The extent of the violation (area of damage).
- Whether the claimant has substantially complied with the forest management plan.
- Whether the claimant has substantially complied with the Guidelines in timber harvest and forest management activities.
- Whether the claimant took measures to avoid the violation.
- If the claimant has violated one or more of the Guidelines concerning harvest practices, whether the claimant has attempted to mitigate the violation.
- Whether the claimant has taken measures to avoid future violations.
- Whether there has been a pattern of violations by the claimant related to any land enrolled in the SFIA Program.

If you violate the covenant by developing or constructing part or all of your enrolled land, all of your land will be removed from the program and you will be assessed a penalty. The penalty is the total payments you received on all of your SFIA land—not just the part in violation—for the previous four years, plus interest. The SFIA covenant remains on the land. You cannot pay a penalty to remove the covenant. You must apply to the MN DOR to remove the covenant and wait four years to be released.

Procedures to End the Covenant

All enrolled land must remain in the program for a minimum of eight years. You may choose to cancel enrollment from the program after four years by filing a written request with the MN DOR. Once filed, the cancellation will take effect January 1 of the fifth calendar year that begins after the Commissioner of the MN DOR receives your termination notice. You will continue to receive incentive payments during the four-year waiting period. You cannot remove just a portion of a parcel. The whole parcel must be removed. Once you withdraw, the land cannot be re-enrolled in the program for at least three years.

Acquiring Enrolled Land

If you buy land enrolled in the SFIA program and want to receive annual incentive payments, you must complete and submit an application Form TH1. If you do not apply for payments, your land still remains in the program so you must abide by the covenant and not develop the land until it is withdrawn from the program.

If you buy enrolled lands and want to withdraw, but still receive incentive payments while waiting to be removed from the program, complete an application Form TH1 and send an intent-to-withdraw to the MN DOR. You will receive payments until the land is released.

If you are buying or recently purchased land already in SFIA, the buyer and seller must determine who is eligible to claim payment for the upcoming year and notify the Commissioner of the MN DOR in writing which person is eligible to claim the payments.

If a landowner dies, the estate's personal representative has up to one year to notify the MN DOR to either:

- Terminate without penalty. If you choose to terminate, the MN DOR will issue a document releasing the land from the covenant, or
- Continue enrollment in the SFIA program by submitting a letter of explanation with a new application, Form TH1. If the new application is approved, the land is enrolled in the program without a break.

If you do not notify the MN DOR within one year, enrollment will terminate automatically without penalty.

Changing Land Classification

Your land's classification can change at the discretion of the county in which the land is located. While your land is enrolled in SFIA, your land classification most likely would be 2b vacant rural land.

2c Managed Forest Land Classification

Minnesota Laws 2008, Chapter 366 (House File 3149), created a new property tax classification—2c Managed Forest Land. Its 0.65 percent class rate for 2008 is lower than other classifications in which forest land may be placed, except Class 2a Agricultural Homestead (0.50 percent).



*The new 2c Managed Forest Land classification allows woodland owners to receive a property tax break.
Photo by Eli Sagor.*

Qualifications

To qualify the parcel must:

- Be at least 20 acres of forest land based on the sum of all forest land covered under the same forest management plan located on contiguous parcels. Wooded acres may not be contiguous, but parcels on which they are located must be contiguous.
- The total enrolled acreage is limited to 1,920 acres statewide per taxpayer.
- Be unplatted property that is rural in character.
- Not be used for agricultural purposes.
- Not be improved with a structure. A minor ancillary nonresidential structure does not disqualify the property (e.g., sheds or other primitive structures, the aggregate size of which are less than 300 square feet that add minimal value and are not used residentially; provided that the occasional overnight use for hunting or other outdoor activities shall not preclude a structure from being considered a minor, ancillary structure).

If any structure or group of structures totals 300 or more square feet, or if any structure is used residentially on more than an occasional basis, or if there is an improved building site that provides water, sewer or electrical hook-ups for residential purposes, the property must be split classed according to the property's current uses. At

least 10 acres must be assigned to, and centered on, the structure. If a property must be split-classified and the resulting forest land is less than 20 acres, the property is not eligible for Class 2c.

- Open water, including rivers, that is less than three acres in size can be included as part of the forested land. Larger areas must be excluded. Marshes and other wetlands are eligible for SFIA.
- Have a forest management plan in place that was developed by a MN DNR approved forest management plan writer within the last ten years. The forest management plan must meet the same requirements of forest management plans prescribed for property enrolled in the SFIA program (Chapter 290C). The MN DNR annually will send county assessors a list of property owners who have a registered forest management plan in each county. To continue to qualify for Class 2c, a property owner's name must be listed on the MN DNR's annual list of registered forest management plans. It is the landowner's responsibility to register their plan with the MN DNR.
- Not be enrolled in the SFIA program. The MN DOR will provide counties with a list of parcels enrolled in the SFIA program so assessors can verify that any parcels in Class 2c are not enrolled in the SFIA program.

If a parcel containing forest land has more than one use, land covered under a forest management plan should be split-classified as 2c (if an application has been made) and the remaining land should be classified according to its use.



A 360-acre parcel containing 60 acres of seasonal residential recreational and 300 acres of forest covered by a forest management plan should be split-classified. Sixty acres should be classed as seasonal residential recreational and 300 acres as Class 2c. Photo by Eli Sagor.

Application Procedures

The property owner must complete an application form CR-2cMFL-08 and provide it to the county assessor to verify that the property qualifies for Class 2c. This form is available from your county assessor or the MN DOR Website: <http://www.taxes.state.mn.us/taxes/property/forms.shtml>. Applications will be accepted at your local county assessor's office through May 1 every year.

Attach your forest management plan to the application. You must follow the guidelines prescribed by the forest management plan if you wish to continue receiving the reduced class rate. Forest management plans approved by the MN DNR will eventually list the number of acres eligible for Class 2c; however, in the near term the assessor is responsible for removing 10 acres for any structure or use that does not qualify as a minor ancillary nonresidential structure.

Compare SFIA and Class 2c *This table summarizes key elements of each law.*

SFIA	Class 2c
20 acre minimum	20 acre minimum
No maximum acreage enrolled	1,920 acre maximum enrolled
Public access required if > 1,920 acres enrolled	Public access not required
Exclude 3 acre minimum for building	Exclude 10 acre minimum for building
8 year minimum enrollment; 4 years to end agreement	1 year minimum enrollment
Pay usual property tax. Class rate varies from 0.50% to 1.25% depending on class and property's value. Get \$ 7.00/acre/year minimum incentive payment (\$ 8.61 actual payment in 2008)	Pay 0.65% Property Tax Class Rate
Property tax qualifies for itemized deduction on federal income tax return, but SFIA payment is taxable income	Property tax qualifies for itemized deduction on federal income tax return

Determining which law reduces your management costs the most requires some math and possibly a conversation with your county assessor about how the change in classification would affect your eligibility for credits and special assessments. Here is an example, but your situation may be quite different, yielding a different conclusion.

80 acres of land with:

- 67 acres forest
- 12 acres open water lake
- 1 acre developed site with 400-square-foot cabin
- Property taxes \$ 14 per acre under Class 4c(1) Seasonal residential recreational, non-commercial with a 1.00% Class Rate
- No other additions or subtractions to taxes payable.

Options:

- Enroll in SFIA, pay \$ 14 per acre property tax, but get an \$ 8.61/acre incentive payment.
- Enroll in Class 2c with its 0.65% Class Rate and pay property taxes of \$ 9.10 per acre.

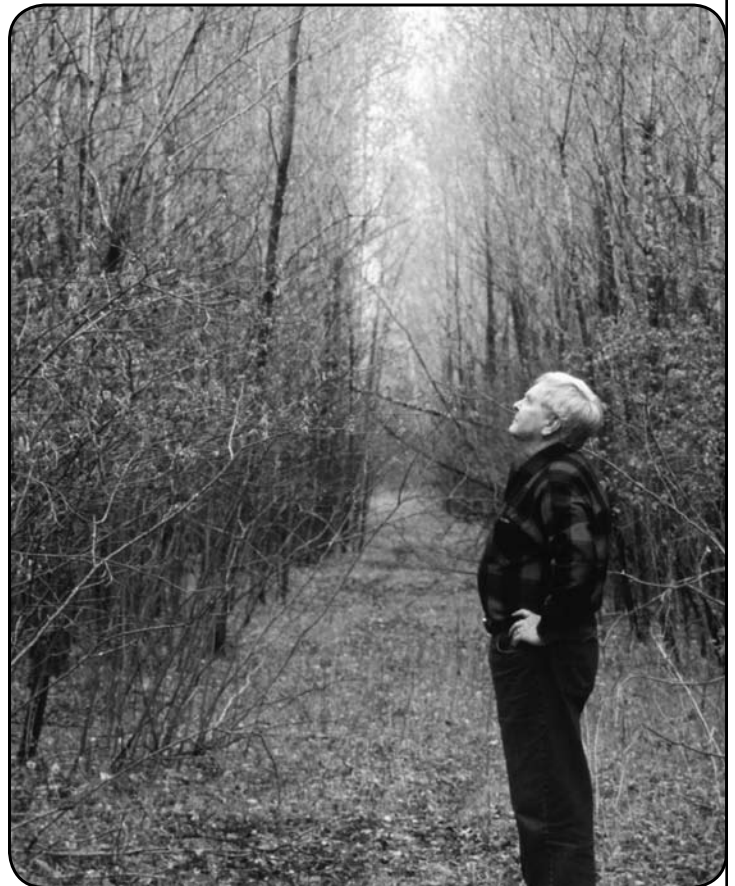
Under SFIA: You may include 3 acres of open water lake, but must exclude the remaining 9 acres of open water lake and 3 acres around the cabin, leaving 68 acres qualified for SFIA and 12 acres remaining in Class 4c(1). Assume the MN DOR determined the SFIA payment to be \$ 8.61 per acre statewide. The total property tax due on this 80 acres is \$ 1,120 ($\$ 14 \times 80$ acres), but the SFIA incentive payment is \$ 585.48 ($68 \text{ acres} \times \$ 8.61/\text{acre}$), leaving a net out-of-pocket cost for taxes of \$ 534.52. The property tax payment may be deducted as an itemized expense on federal income taxes, but the SFIA payment is taxable income.

Under Class 2c: You may include 3 acres of open water lake, but must exclude 9 acres of open water lake and 10 acres around the cabin, leaving 61 acres eligible for Class 2c and 19 acres remaining in Class 4c(1). Total property tax due on this 80 acres is: $(\$ 9.10 \times 61 \text{ acres}) + (\$ 14 \times 19 \text{ acres}) = \$ 821.10$. The property tax payment may be deducted as an itemized expense on federal income taxes.

Analysis and Conclusion: Before considering income tax consequences, you save \$ 286.58 more by enrolling in SFIA than in Class 2c ($\$ 821.10 - \$ 534.52 = \$ 286.58$). After considering income tax consequences, you save \$ 327.56 to \$ 399.20 more by enrolling in Class 2c rather than in SFIA, depending on your marginal tax bracket. The requirement to pay income taxes on SFIA payments reduced the value of this incentive.

To calculate income tax effects on a property tax payment, deduct from your property tax payment a percentage of that payment according to your marginal income tax rate (10% to 35%). For example, if your property tax payment is \$ 1,120 and your marginal income tax rate is 10%, the income tax deduction reduces that property tax cost by 10% (\$ 112) to \$ 1,008.

To calculate income tax effects on your SFIA payment, multiply your SFIA payment by your marginal income tax rate and consider that an added cost of management. For example, if your SFIA payment was \$ 585.48 and your marginal income tax rate is 10%, your additional cost is \$ 58.55. Add the after-tax cost of a property tax payment and an SFIA payment to determine the total after-tax cost of the property tax and incentive payment.



Backlogs for stewardship assistance are expected as more landowners request assistance to develop or update management plans.

How To Get Forest Management Assistance

The demand for assistance to write forest management plans and help landowners complete activities recommended in those plans will build as landowners decide to enroll in the SFIA or Class 2c programs. Free stewardship assistance is available to landowners through the MN DNR or one of its Private Forest Management (PFM) partners (e.g., private forestry consultant or Soil and Water Conservation District). Wait times for free stewardship assistance are expected to grow as landowners enroll their lands into one of the property tax programs. Landowners who do not want to wait for free service can contract with a MN DNR approved stewardship plan preparer. Contact a MN DNR forester for a list of PFM partners qualified to write stewardship plans. Many approved plan preparers are members of the Minnesota Association of Consulting Foresters. A list of MACF members can be found at www.paulbunyan.net/users/norfor/. Also consider consulting foresters in your area that may not be MACF members. ***Be sure the consulting forester is qualified to write a MN DNR approved stewardship plan.***

Revise your forest management plan when it exceeds 10 years of age; you add or subtract significant forest acreage; your goals change significantly; or significant changes occur to the land through timber sales, land management projects, fire, or pests. A site visit by a forester may be required. All updated plans must be re-registered with the MN DNR for your land to remain eligible for SFIA or Class 2c.

For More Information

About the SFIA

Contact the MN DOR (not your county assessor):
(651) 556-6088
proptax.questions@state.mn.us

Application and Covenant Forms: www.taxes.state.mn.us/taxes/property/forms.shtml

Fact Sheet: www.taxes.state.mn.us/taxes/property/publications/fact_sheets/html_content/sust_forest_fact_sheet.shtml

About Class 2c

Go first to your county assessor. If the assessor cannot answer your question, contact:

Drew Imes, State Program Administrator
Property Tax Division
MN Department of Revenue
600 N. Robert Street
St. Paul, MN 55146-3340
Phone: 651-556-6084
Fax: 651-556-3128
Email: Drew.Imes@state.mn.us

Application: www.taxes.state.mn.us/taxes/property/forms.shtml

Forest Management Assistance

Contact the MN DNR or a consulting forester.

MN DNR contact information: www.dnr.state.mn.us/areas/forestry/index.html

Acknowledgments

Produced in collaboration with:

University of Minnesota
Department of Forest Resources
University of Minnesota Extension
Experiment in Rural Cooperation

Minnesota Department of Natural Resources
Minnesota Department of Revenue
Minnesota Forestry Association

Minnesota Forestry Association
(218) 326-6486
PO Box 496
Grand Rapids
MN 55744
www.MinnesotaForestry.org

The MFA works on behalf of family forest owners, through education and advocacy, to promote stewardship of woodlands.