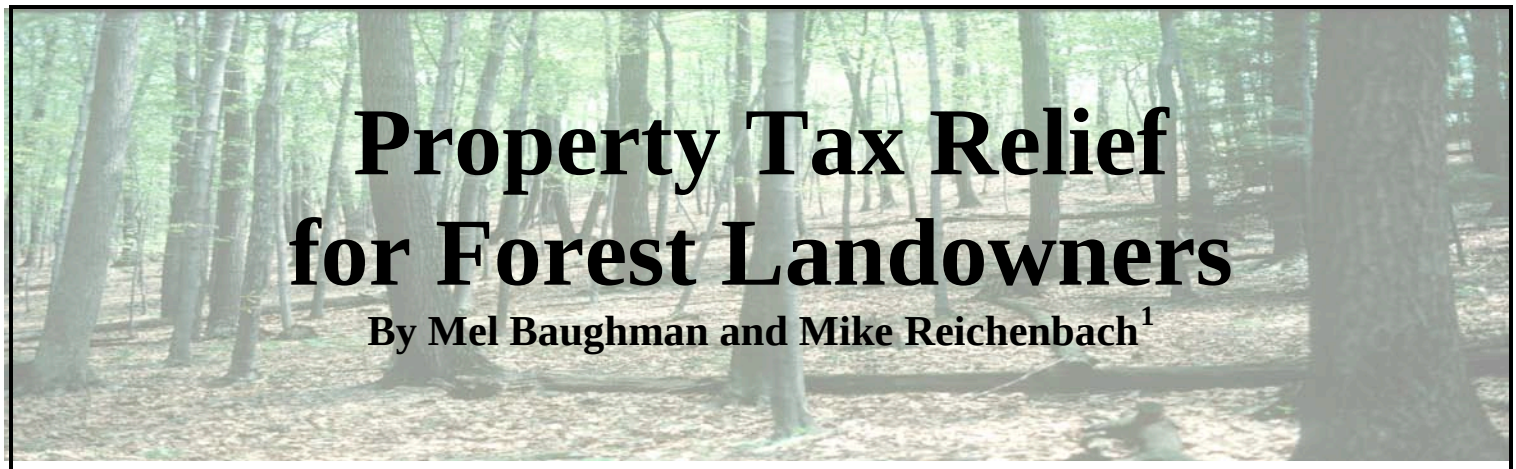

Property Tax Relief for Forest Landowners

By Mel Baughman and Mike Reichenbach[1]

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Property taxes pay for important local government services. They also are a significant annual cost for you, the forest landowner. You may not fully recover costs, such as property taxes, associated with forest management, due to the 30 to 100 year time between harvests. In addition, your land provides wildlife habitat, watershed protection, aesthetics, and biodiversity that benefit all Minnesotans. Because of the public benefits your forest land provides, the Minnesota Legislature created the Sustainable Forest Incentive Act (SFIA) and 2c Managed Forest Land Classification (Class 2c). In addition the Green Acres/Rural Preserves program can be used to reduce ownership costs on sustainably managed forest land. This publication will help you decide which program, if any, best fits your situation.

Your Property Classification

Money raised by property taxes is a major source of funding for school districts, cities and townships, counties, and special taxing districts. Compared with sales or income taxes, property taxes are more stable during recessions or other changes in income or spending trends. But property taxes may become a financial burden for landowners that cannot produce regular income from their land.

Your county assessor determines the valuation and classification of your property. That valuation and classification is used to determine your property's share of the property tax levied by the county, city or township, school, and any other property tax levying bodies (such as a watershed district) in which your property is located.

The process of determining your property tax requires several steps beginning with your property's estimated market value (EMV) as of January 2 each year. The EMV is based on your land's highest and best use and historical sales of similar properties. The EMV is then multiplied by a class rate. The state legislature establishes different property classifications based on land use, each with a different rate. The assessor assigns a classification to your property based on its current use on January 2. Table 1 shows class rates that most commonly apply to family forest land. Generally, a reduction in the class rate percentage will lower your property taxes. After applying the class rate, your final property tax bill may be subject to additions for special assessments or credits for homestead or other purposes. Review your tax bill to see how your property is classified and what credits you are receiving for homestead or other purposes. The property tax programs described in this publication may affect the classification and valuation of your property. Before enrolling in these programs or requesting a reclassification of your property, talk with your assessor to learn how a change in classification will affect your tax. Changing your classification may alter your property assessment, resulting in a higher or lower tax. In addition, as more land is enrolled in different classes, some with lower class rates and valuations, the tax burden shifts among properties. For example, a change in class rate from 1.00% to .65% may not reduce your tax by 35% if a large number of landowners make this change causing a redistribution of the tax burden.

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Table 1. Property Tax Class Rates and Descriptions for taxes payable in 2010.

Class Rate	Class Description
	2a. Agricultural Homestead, (farmland only, not considering house, garage & one acre):
0.50%	first $1,010,000
1.00%	over $1,010,000
1.00%	2b. Rural Vacant Land & Non-homestead Agricultural Land
0.50%	2b. Rural vacant land contiguous to 2a Homestead land in the same ownership
0.65%	2c. Managed Forest Land
	4c(1). Seasonal residential recreational, non-commercial
1.00%	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.]

Minnesota Agricultural Property Tax (Green Acres)

Minnesota law requires assessors to value property at its estimated market value, based on the use of the property that will bring the greatest economic return to the land (its "highest and best use"). For many farm properties, the highest and best use may be to develop the land for a residential or commercial use.

In 1967 the Legislature recognized that urban sprawl was causing valuation and tax increases that had the potential of forcing farmers off their land in certain situations. It developed the Agricultural Property Tax law, commonly referred to as Green Acres (Minnesota Statutes, section 273.111). This statute allowed qualifying farmers to pay real estate taxes based upon the *agricultural* value of their land while deferring the higher property taxes attributable to the land's value as residential or commercial property.

In 2008 and 2009, the Legislature amended the law. In essence, only class 2a productive agricultural land can qualify for Green Acres. Class 2b rural vacant land that was grandfathered into the program in 2009 may stay in the program until the 2013 assessment. Beginning with the 2013 assessment, any class 2b rural vacant land that was "grandfathered" into Green Acres will be removed from the program and deferred taxes will be collected.

How Green Acres Works

For properties enrolled in Green Acres, taxes are calculated on both the estimated market value (higher value based on highest and best use) and the agricultural value (lower value). The difference between the tax calculated on the agricultural market value and the estimated market value is deferred until the property is sold or no longer qualifies for the Green Acres program. The difference between the tax calculated on the agricultural market value and the estimated market value is deferred until the property no longer qualifies for the Green Acres program. When the property is sold or transferred to a non-qualifying person, withdrawn, or no longer satisfies the program requirements, the deferred tax for the current payable year and the two prior years must be paid to the county.

If the property (in part or in whole) is no longer eligible for Green Acres due to a sale, transfer, subdivision, or withdrawal, you will be responsible to pay back deferred taxes on that acreage for the current year plus the two prior years. Once an entire parcel is removed from Green Acres, you will also be responsible to pay any deferred special assessments plus any interest accrued.

Special local assessments also may be deferred while the property qualifies for Green Acres. When the property no longer qualifies for the program, all deferred special assessments are due.

If a property enrolled in Green Acres is sold or transferred to another person who may qualify for continuation in the program, the new owner must apply to the county assessor within 30 days of the purchase.

If you sell, transfer, subdivide, or otherwise withdraw your property (in part or in whole) from the Green Acres program, you will be responsible to pay back deferred taxes on the acreage withdrawn for the current year plus the two prior years. Once an entire parcel is withdrawn from Green Acres, you will also be responsible to pay any deferred special assessments plus any interest accrued. There are certain types of transfers that do not trigger a payback. These include death of the owner when the surviving owner retains ownership thereafter, transfers that are the result of a divorce and one of the spouses retains ownership, transfers that are the result of a single property owner getting married and that owner retains ownership, reorganization of a family farm entity under section 500.24 if all owners maintain the same beneficial interest before and after the rearrangement, or placement of the property into a trust provide that the owners of the property are the grantors of the trust and maintain the same beneficial interest.

Green Acres is applicable when the highest and best use value exceeds the farmland value and is an option for taxpayers in counties with significant areas of farmland subject to development pressure.

Qualifications

Beginning with the 2009 assessment for taxes payable in 2010, the property must be:

- Classified as 2a Productive Agricultural Land [Land in CRP, CREP, RIM, and similar federal or state conservation programs may qualify if it was tilled immediately before enrollment in the conservation program. Land in a perpetual RIM easement does not qualify. The assessor will determine what land qualifies depending on all the facts];
- At least 10 acres in size or a nursery or greenhouse; and
- Primarily devoted to the production for sale of agricultural products. Agricultural products include short rotation woody crops not grown for timber, lumber, wood or wood products and maple syrup from trees grown by a person licensed by the Minnesota Department of Agriculture as a food processor. A list of other agricultural products can be found in Minnesota Statutes, section 273.13, subdivision 23.

One of the following ownership conditions must apply:

- The property is the homestead of the owner, or the owner’s surviving spouse, child, or sibling or is farmed in conjunction with the homestead property.
- The property has been in possession of the applicant, the applicant's spouse, parent, or sibling (or any combination) for a period of at least seven years prior to application.
- The property is being farmed in conjunction with property within four townships or cities (or any combination) from property that has been in possession of the owner, the owner’s spouse, parent, or sibling (or any combination) for a period of at least seven years prior to application.
- The property is in possession of a nursery, greenhouse, or an entity owned by a proprietor, partnership, or corporation which also owns the nursery or greenhouse operations on the parcel or parcels.
- The property is the homestead of a member/shareholder/partner of a family farm entity or authorized farm entity under MS 500.24.
- The property is the homestead of a member/shareholder/partner of a poultry entity, other than a limited liability entity, in which the majority of the members, partners, or shareholders are related and at least one of the members, partners, or shareholders either resides on the land or actively farms the land.

Enrollment Procedures

Green Acres applications are made to the county assessor. Application forms are available at the county assessor’s office and must be filed by May 1 in order to receive consideration for the property taxes payable in the following year. Proper documentation to verify agricultural production must be submitted with the application. Your assessor may require:

- an agricultural use verification form;
- proof by affidavit or otherwise that the property meets all requirements for qualification; and

- a copy of the appropriate schedule or form showing farm income has been included in the most recently filed federal income tax return of the applicant.

Recent Law Changes

Significant changes were made to this law during the 2008 and 2009 legislative sessions. Before 2008, slough, wasteland, and woodland (called non-productive land) contiguous to or surrounded by agricultural land were considered to be in agricultural use if they were under the same ownership and management as the 2a classed land. With legislative changes in 2008 these nonproductive lands were reclassified as 2b rural vacant land and landowners had to decide whether to grandfather these lands into Green Acres or remove them and pay the deferred taxes. If nonproductive lands were withdrawn from Green Acres, sold, transferred or subdivided after January 2, 2009, a seven year payback was required with the payback figured as an average of deferred taxes from the current year and two previous years times seven (not to exceed the actual number of years enrolled in Green Acres). Producers who opted to withdraw either some or all of their non-productive acres before January 2, 2009 had to pay back the three year deferment on those acres.

In 2009 additional law changes allow all nonproductive lands that were removed or grandfathered into Green Acres in 2008 to remain in the Green Acres program until 2013 at which time they will be withdrawn and subject to additional tax. Landowners who had lands removed from the program in 2008 and paid the deferred taxes may receive their deferred tax payment back from the county. Nonproductive lands that were grandfathered into Green Acres or that were removed in 2008 from Green Acres and classed as 2b rural vacant land may now qualify for the Rural Preserve Program. This new program defers taxes in a manner similar to Green Acres.

Options for Class 2b Rural Vacant Land that Is Currently Enrolled in Green Acres

1. You may withdraw some or all of your class 2b Rural Vacant Land before May 1, 2010, without any payback of deferred taxes. Your property will be assessed at its estimated market value for the 2010 assessment for taxes payable in 2011.

2. You may leave some or all of your Class 2b Rural Vacant Land enrolled in Green Acres until 2013. Before or at that time, you may enroll the Class 2b land in the new Rural Preserve Program without any payback of deferred taxes.

   Class 2b property that was grandfathered into Green Acres after May 1, 2010, or that is part of an agricultural homestead may be enrolled in the Rural Preserve Program beginning with the 2011 assessment for taxes payable in 2012.

3. You may leave some or all of your class 2b land in Green Acres. Beginning with the 2013 assessment, the assessor will remove all class 2b land from Green Acres and collect three years deferred taxes. That land will be valued at market value for the 2013 assessment and beyond.

In addition to the above options, Class 2b Rural Vacant Land may be eligible for the reduced classification rate provided by the Class 2c Managed Forest Land classification or for the incentive payment provided by the Sustainable Forest Incentive Act (SFIA) program.

Rural Preserve Program

The Rural Preserve Program provides property tax relief for eligible Class 2b rural vacant land in areas where the market value of land is being affected by development pressure, sales of recreational land or other factors. Applications for enrollment are not yet available, but will be available before the first application due date of May 1, 2011. Planning ahead is particularly important for property owners who are currently enrolled in Green Acres.

Real estate taxes on enrolled land are based upon a value that is not influenced by outside factors such as urban sprawl or seasonal activities. Rural Preserve is designed to work in conjunction with the changes that were made to the Green Acres program in 2008 and 2009. Qualifying class 2b land that was previously enrolled in Green Acres may be enrolled in Rural Preserve by May 1, 2013, without being subject to the payback of Green Acres deferred taxes.

The assessor determines two values on land enrolled in Rural Preserve:

- The "estimated market value" based on sales of similar property taking into consideration all of the outside factors that influence its market value.
- The "value without regard to outside influences" or "Rural Preserve Value" which must not exceed the class 2a tillable value for that county.

Taxes are calculated on both values, but paid on the lower value each year and the difference in values is deferred. When the property is sold, transferred, or no longer qualifies for the Rural Preserve Program, the deferred taxes for the current year and two prior years must be paid to the county.

Special local assessments may be deferred while the property qualifies for Rural Preserve. When the property no longer qualifies for the program, all deferred special assessments plus interest are due.

Qualifications

The enrolled acres must:

- Be non-productive land (with respect to agricultural production) (e.g., slough, wasteland, woodland)
- Have been enrolled in Green Acres prior to enrollment in Rural Preserve or be part of an agricultural homestead.
- Be at least 10 contiguous acres in size.
- Be covered by a Conservation Management Plan developed by an approved plan writer.
- Not be enrolled in Green Acres, Open Space, or Sustainable Forestry Incentive Act.
- Have no delinquent property taxes owed on the land.
- Be subject to a recorded covenant for a minimum of 10 years.

Participants must commit to a Conservation Management Plan, approved by a county's soil and water conservation district, for at least 10 years.

Enrollment Procedures

Before applying for Rural Preserve, you must file a covenant agreement with the county recorder where the property is located. When you record the covenant, you are agreeing that:

- The covenant runs with the land, so it continues even if there is a change in ownership. Future owners must continue to comply with the terms of the covenant.
- The covenant will remain on the property for a minimum of 10 years. You may request to cancel the covenant five or more years after enrolling in the program. It will take another five years for the covenant to terminate.
- After the covenant is terminated, the land will not be eligible for re-enrollment in Rural Preserve for a period of three years.

- For the entire length of the covenant, you will be required to abide by the terms set forth in your Conservation Management Plan.

Interested landowners should begin now to get a Conservation Management Plan on the acres they plan to enroll since there may be a backlog of requests for such plans near the May 1, 2011 due date. A fee will be charged for preparing the plan. Contact your Soil and Water Conservation District for plan requirements and a list of qualified plan preparers.

Applications for enrollment are not yet available, but will be available at the county assessor's office before the first application due date of May 1, 2011, for taxes payable in 2012. Thereafter applications must be filed by May 1 for the next taxes-payable year.

Rural Preserve applications will be filed with and approved by the county assessor. The assessor will require that a copy of your recorded covenant, Conservation Management Plan, and other supporting documents be submitted with the application to prove that the property meets all requirements for qualification.

Ending Enrollment

When the covenant is terminated by the owner, or when the property no longer qualifies for Rural Preserve, the property owner must pay back deferred taxes for the year of termination plus the two prior years. The deferred taxes are a lien against the property.

All deferred special assessments, plus interest, must also be paid back. The total due will be payable in equal installments, spread over the time remaining until the last maturity date of the bonds issued to finance the improvement for which the special assessments were levied.

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. The payment is taxable income to the landowner. Taxable income from a forestry operation may help show a business interest for income tax purposes. Please refer to www.timbertax.org for more information about income tax considerations.

Qualifications

To enroll, you must meet all of these requirements:

- You must own 20 or more contiguous acres of land in Minnesota, of which at least 50 percent is forested.
    - Forest land must be 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 is a shed or building that only stores 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, but the additional tracts must be at least 20 acres in size.
    - Open water, including a river, 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 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 reforested.
- 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 before 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 or 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. You can not apply to withdraw until you have been in the program a minimum of four years. The withdrawal process then takes four additional years. You may sell acres or the entire parcel at any time during your enrollment, but the new owner must abide by the covenant.

Enrollment Procedures

Covenant: If you meet all qualifications, record a covenant with the county recorder's office (or registrar for registered land) in the county where your land is located. The covenant requires you to maintain your land as forest, to follow your forest management plan and to abide by the Minnesota Forest Management Guidelines. A copy of the covenant may be found on the Department of Revenue website. The Forest Management Guidelines may be found at http://www.frc.state.mn.us/FMgdline/Guidelines.html. 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 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:

- A 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 - A 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 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.
- A copy of the property tax statement for each qualifying parcel.

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.

Your 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.
- 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. Beginning in 2010, tax calculations will be based on forest land in Class 2c using a 1% class rate. 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 2009 was $8.74 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 will 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 buildings on 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 rural vacant land.

2c Managed Forest Land Classification

In 2008 the Minnesota Legislature, created a new property tax classification—Class 2c Managed Forest Land [Chapter 366 (House File 3149)]. Its 0.65 percent class rate for 2008 is lower than rates for other classifications in which forest land may be placed, except Class 2a Agricultural Homestead (0.50 percent) or 2b rural vacant land that is contiguous to class 2a homestead land under the same ownership. The only forest land that may be in Class 2a Agricultural Homestead is land used for short rotation woody crops not grown for timber, lumber, wood or wood products and maple syrup from trees grown by a person licensed by the Minnesota Department of Agriculture as a food processor.

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 or 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 are less than three acres can be included as part of the forested land. Larger areas must be excluded. Marshes and other wetlands are eligible for Class 2c.
- Have a forest management plan 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. For example: 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: 60 acres as seasonal residential recreational and 300 acres as Class 2c.

Application Procedures

The property owner must complete application form CR-2cMFL 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 each 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.

After-tax Comparison of SFIA and Class 2c

Determining whether SFIA or Class 2c reduces your management costs the most requires calculations by your county assessor about how the change in classification would affect your eligibility for credits and special assessments. It also requires an analysis of income tax effects. Here is an example that assumes no change in credits or special assessments between classifications, but your situation may be quite different, yielding a different conclusion.

Assume 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 $8.74/acre incentive payment.
- Enroll in Class 2c with its 0.65% Class Rate and pay property taxes of $9.10 per acre.

Under SFIA: Land eligible for SFIA includes 67 acres of forest and 3 acres of open water lake, but you must exclude 9 acres of lake and 3 acres around the cabin, leaving 68 acres qualified for SFIA and 12 acres remaining in Class 4c(1). The total property tax due on these 80 acres is:
$14 tax/acre x 80 acres = $1,120. But the total SFIA incentive payment is: $8.74 payment/acre x 68 acres = $594.32. The net out-of-pocket cost for property taxes is $1,120 - $594.32 = $525.68. The property tax payment of $1,120 may be deducted as an itemized expense on federal income taxes, but the SFIA payment of $594.32 is taxable income.

Under Class 2c: Land eligible for Class 2c includes 67 acres of forest and 3 acres of open water lake, but you must exclude 9 acres of 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 these 80 acres is: ($9.10 tax/acre x 61 acres) + ($14/acre x 19 acres) = $555.10 + $266.00 = $821.10. The $821.10 property tax payment may be deducted as an itemized expense on federal income taxes.

After-Tax Analysis: Your total out-of-pocket cost for property taxes before considering income tax consequences is $525.68 under SFIA, but $821.10 under Class 2c. You appear to save $295.42 more by enrolling in SFIA than in Class 2c. Now you need to evaluate income tax consequences.

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% or $112 to $1,008. Keep in mind that an income tax payment is a cost to you while an income tax deduction is a cost saving to you.

To calculate income tax effects under SFIA:
1) multiply your property tax payment by your marginal tax rate: $1,120 x .10 = $112. Deduct this $112 cost saving from your property tax payment: $1,120 - $112 = $1,008. This is your out-of-pocket cost of property taxes.
2) multiply your SFIA payment by your marginal tax rate: $594.32 x .10 = $59.43. Deduct this $59.43 cost from your SFIA payment: $594.32 - $59.43 = $534.89. This is an addition to income.
3) Your SFIA payment reduces your cost of property taxes, so subtract your after-tax SFIA payment from your after-tax property tax payment: $1,008 – $534.89 = $473.11. This is your after-tax cost under SFIA.

To calculate income tax effects under Class 2c:
1) multiply your property tax payments by your marginal tax rate: $821.10 x .10 = $82.11 and deduct that amount from your property tax payment: $821.10 – $82.11 = $738.99. This is your after-tax cost under Class 2c.

Compare after-tax costs:
The $738.99 after-tax cost under Class 2c exceeds the $473.11 after-tax cost under SFIA so you save $265.88 by enrolling in SFIA.

In this example, SFIA was the better choice before and after income-tax effects were calculated. You should not assume this conclusion will always be true. Where property taxes are very high, Class 2c may yield the lower out-of-pocket cost.

Always talk to your tax assessor before requesting a change in property tax classifications to learn how such a change would affect any other assessments, credits, or redistribution of taxes among tax payers.

Quick Comparison of Rural Preserve, SFIA, and Class 2c

Rural Preserve	SFIA	Class 2c
10 contiguous acres: Green Acres or ag homestead	20 contiguous acres	20 acres in contiguous parcels
No maximum acres enrolled	No maximum acres enrolled	1,920 acre maximum enrolled
Public access not required	Public access required if > 1,920 acres enrolled	Public access not required
Not applicable	Exclude 3 acres minimum for building	Exclude 10 acres minimum for building or other development
Tax assessed on lower of Rural Preserve Value or Estimated Market Value	Class rate varies from 0.50% to 1.25% depending on class and property's value. Pay usual property tax, but get $7/acre/year minimum incentive payment ($8.74 actual payment in 2009)	0.65% property tax class rate
Covenant required 10 year minimum enrollment	Covenant required 8 year minimum enrollment 4 years to end agreement	No covenant required 1 year minimum enrollment
Property tax qualifies for itemized deduction on federal income tax return	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
Conservation Management Plan or Forest Management Plan required	Forest Management Plan required	Forest Management Plan required

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 more landowners decide to enroll in the Rural Preserves, SFIA, or Class 2c programs. Request assistance now for your plan to insure that you complete it before a tax program application deadline.

Forest Management Plans required for SFIA and Class 2c are available to landowners through the MN DNR or one of its Private Forest Management (PFM) partners (e.g., private forestry consultant or selected Soil and Water Conservation Districts). Contact a MN DNR forester for a list of all approved plan preparers. 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 forester has been approved by the MN DNR to write a Forest Management Plan.*** A fee will be charged for a Forest Management Plan whether it is produced by the MN DNR or one of its PFM partners.

Revise your forest management plan before 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 plans must be registered with the MN DNR for your land to remain eligible for SFIA or Class 2c.

A Conservation Management Plan or equivalent Forest Management Plan is required for the Rural Preserve Program. Forest Management Plans may be prepared by the sources described above. If you do not have a Forest Management Plan, contact your Soil and Water Conservation District for a list of qualified Conservation Management Plan preparers. A fee will be charged for these plans.

For More Information

About Green Acres:
Minnesota Department of Revenue. Fact Sheet 5, Green Acres: Minnesota Agricultural Property Tax. Law.
http://www.taxes.state.mn.us/taxes/
Enter "Green Acres Fact Sheet 5" in the search box and search the entire site.
Contact your county assessor.

About Rural Preserve:
Minnesota Department of Revenue. Rural Preserve Fact Sheet 15, Rural Preserve Property Tax Program.
http://www.taxes.state.mn.us/taxes/
Enter "Rural Preserves Fact Sheet 15" in the search box and search the entire site.
Contact your county assessor.
Applications will be available before the first application due date of May 1, 2011.

About 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
Minnesota Department of Revenue. Sustainable Forest Incentive Act 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

Management Plan Assistance:
For a Forest Management Plan required for SFIA or Class 2c, contact the MN DNR or a consulting forester. DNR contact information: www.dnr.state.mn.us/areas/forestry/index.html

For a Conservation Management Plan required for Rural Preserve, contact your Soil and Water Conservation District for a list of approved plan writers.

References

Minnesota Agricultural Property Tax or Green Acres. Minnesota Statutes, section 273.111.
Minnesota Department of Revenue. Fact Sheet 5, Green Acres: Minnesota Agricultural Property Tax. Law. http://www.taxes.state.mn.us/taxes/property_tax_administrators/other_supporting_content/2009258%20Fact%20Sheet%205%20(1).pdf
Minnesota Department of Revenue. Property tax forms: http://www.taxes.state.mn.us/taxes/property/forms.shtml

Minnesota Department of Revenue. Rural Preserve Fact Sheet 15, Rural Preserve Property Tax Program. http://www.taxes.state.mn.us/taxes/property_tax_administrators/other_supporting_content/2009144%20Rural%20Preserve%20Fact%20Sheet.pdf
Minnesota Department of Revenue. Sustainable Forest Incentive Act Fact Sheet. www.taxes.state.mn.us/taxes/property/publications/fact_sheets/html_content/sust_forest_fact_sheet.shtml
Rural Preserve. Minnesota Statutes, section 273.114.

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