Family Forest Stewardship and Property Taxes

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Private family owned forest land provides wildlife habitat, watershed protection, aesthetics, and biodiversity that benefit all Minnesotans. Because of the public benefits private forest land provides, and to help family forestland owners manage their lands the Minnesota legislature created the Sustainable Forest Incentive Act (SFIA) and 2c Managed Forest Land Classification (class 2c). A program for farmland, the Green Acres was created in the late 1960’s to retain farmland in areas where development pressure might shift land use to development. The Rural Preserve Program works with Green Acres to protect class 2b rural vacant lands associated with lands enrolled in Green Acres. This publication will help you decide which of these programs, if any, fits your situation.

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 a more stable source of revenue for local units of government. However, 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, 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). 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 to determine the tax capacity of the property. The state legislature establishes different property classifications based on land use, each with a different class 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. Although a reduction in the class rate percentage will often lower your property taxes the calculation of taxes paid is a function of the tax levy set by the county commissioners and other taxing bodies. In addition, after applying the class rate, your final property tax bill may be subject to additions for special assessments or credits for homestead. Review your tax bill to see how your property is classified and what credits you are receiving.

Before enrolling in a preferential tax program 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, if a large number of landowners enroll in programs that change their class rate from 1.00% to .65%, tax bills may not be reduced by 35% because of how the tax burden is redistributed to all property owners.

Table 1. Property Tax Class Rates and Descriptions for taxes payable in 2011.

<table>
<thead>
<tr>
<th>Class Rate</th>
<th>Class Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.50%</td>
<td>2a. Agricultural Homestead, (farmland only, not considering house, garage &amp; one acre): first $1,210,000 over $1,210,000</td>
</tr>
<tr>
<td>1.00%</td>
<td>2b. Rural Vacant Land &amp; Non-homestead Agricultural Land</td>
</tr>
<tr>
<td>0.50%</td>
<td>2b. Rural vacant land contiguous to 2a Homestead land in the same ownership</td>
</tr>
<tr>
<td>0.65%</td>
<td>2c. Managed Forest Land</td>
</tr>
<tr>
<td>1.00%</td>
<td>4c(1). Seasonal residential recreational, non-commercial first $500,000 over $500,000</td>
</tr>
<tr>
<td>1.25%</td>
<td></td>
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</tbody>
</table>

[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 and 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.

**How Green Acres Works**

For properties enrolled in Green Acres, taxes are calculated on both the estimated market value (based on highest and best use) and the agricultural market value. If the estimated market value is higher, 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. Special local assessments also may be deferred while the property qualifies for Green Acres.

If the property (in part or in whole) is no longer eligible for Green Acres due to a sale, transfer, withdrawal, subdivision or other change in land use, you will be responsible to:

- Pay back deferred taxes on that acreage for the current year plus the two prior years.
- Pay any deferred special assessments plus any interest accrued.

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 for continued enrollment to the county assessor within 30 days of the purchase.

The following types of transfers do not trigger a payback:

- Death of the owner when the surviving owner retains ownership thereafter.
• Transfers that are the result of a divorce and one of the spouses retain ownership.
• Transfers that are the result of a single property owner getting married and that owner retain ownership.
• Reorganization of a family farm entity under section 500.24 if all owners maintain the same beneficial interest before and after the rearrangement.
• Placement of the property into a trust provided that the owners of the property are the grantors of the trust and maintain the same beneficial interest.

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

• Classified as 2a Productive Agricultural Land. Land in the Conservation Reserve Program (CRP), Conservation Reserve Enhancement Program (CREP), and similar federal or state conservation programs may qualify if it was tilled immediately before enrollment in the conservation program. Land in a perpetual Reinvest in Minnesota (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.
• Primarily devoted to the production and 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 used for a nursery, greenhouse.
• 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**

Application forms are available at the county assessor's office and must be filed with the assessor 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.
- 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.

*Once you have been accepted into Green Acres, no further application is required in future years.*

**Law Changes**

Significant changes were made to this law during the 2008, 2009, and 2010 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 classified 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.

In 2009 and 2011 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 properly enrolled class 2b lands removed from the program after May 21, 2008 will be treated as if those acres were enrolled in Green Acres. This is relevant to enrollment in the Rural Preserve Program described in the next section. If a property owner withdrew class 2a acres after May 21, 2008 or withdrew class 2b lands after August 16, 2010 and paid deferred taxes, the owner may receive their deferred tax payment back.

**Options for Class 2b Rural Vacant Land that Is Currently Enrolled or Grandfathered into Green Acres**

1. 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.

2. 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.

As an alternative to the above options, Class 2b Rural Vacant Land of more than 20 acres 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. Applications are due on May 1. 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, 2009, and 2010. 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 land must be Class 2b rural vacant land that is:

- Enrolled in Green Acres for taxes payable in 2011 OR is part of an agricultural homestead property currently enrolled in Green Acres.
- Contiguous to Green Acres property.
- Not be enrolled in, Open Space, Metropolitan Agricultural Preserves or Sustainable Forestry Incentive Act.
- Not delinquent in property taxes.

Enrollment Procedures

- Obtain a Rural Preserve Application form at your county assessor’s office.
- Obtain the most recent aerial photograph of the property from the Farm Service Agency or County GIS and outline the land you wish to enroll on the photograph.
- Bring the application, photograph and other documents required by your county assessor to the county assessor’s office.

Ending Enrollment

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

The Sustainable Forest Incentive Act (SFIA), provides an annual payment of $7 per enrolled acre from the Minnesota Department of Revenue (MN DOR). This is provided as an incentive to practice long-term sustainable forest management. 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 own 20 or more contiguous acres of land in Minnesota, of which at least 50 percent is forested.
  - Forest land must be at least 10 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; or land from which the trees have been removed to less than 10 percent stocking which will be afforested.
  - There is no maximum acreage. Beginning in 2011, tax calculations are fixed at $7.00 per acre per year not to exceed a maximum payment of $100,000 per year to any one tax payer, or business entity.
  - Ownership greater than 1,920 acres must allow year-round, non-motorized 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 as determined by the Minnesota Department of Natural Resources (MN DNR). Landowners required to allow access do not incur liability for any injury to the person or property caused by an act or omission of the person using the property.

- You may not enroll residential land or land used for agricultural purposes (e.g., pasture, hayfields and cropland), nor land 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 is used as a temporary or permanent dwelling or is used to store items not regularly used for management purposes, three acres of land around it must be excluded from the enrolled acres.

- Any portion of a parcel of land that has buildings, roads or improvements that are not necessary for sustainable forest management may not be enrolled in SFIA. The minimum reduction in potential enrolled acres for buildings is three acres. To be eligible for SFIA
20 contiguous forested acres are required to be enrolled. Multiple blocks of 20 contiguous acres are permitted to be enrolled.

- 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, the owners must decide which one will receive the incentive payment.

- No delinquent property taxes can be owed on the land before enrolling, and taxes must be paid on-time while enrolled in the program.

- The land must have a current forest management plan or stewardship plan prepared by a plan writer approved by the MN DNR. A current plan is one that has been prepared within the past ten years.

- The land may not be enrolled in Reinvest in Minnesota (RIM), Conservation Reserve Enhancement Program (CREP), Conservation Reserve Program (CRP), Green Acres, or 2c Managed Forest Land.

- You agree to be enrolled in the program for a minimum of eight years. To withdraw, a request must be made to the Commissioner of Revenue. You may apply for withdrawal after being in SFIA for a minimum of four years. There is a waiting period of four additional years after applying to withdraw. You may sell acres or the entire parcel at any time during your enrollment. The new owner is bound by the covenant.

**Enrollment Procedures**

1. 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](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.

2. 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 forest management 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, but you usually are not required to submit the whole plan with your application.

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

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.

3. 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.

4. 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 in October of the same year.

Beginning in 2011, tax calculations are fixed at $7.00 per acre per year not to exceed a maximum payment of $100,000 per year to any one tax payer, or business entity. *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 immediately removed 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 an intent to remove all enrolled land from the SFIA Program. Upon notification, the claimant has 60 days to appeal the determination. If the Commissioner denies the appeal, the claimant may appeal to tax court.

Landowners must abide by the 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 regarding 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. To remove the covenant, you must apply to the MN DOR. There is a four year waiting period before lands will be removed from the program.

**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 remains in the program and you must continue to use the land for forestry purposes until the land is withdrawn from the program.

If you buy enrolled lands and want to be removed from the program, contact the MN DOR regarding withdrawal procedures. If you wish to receive payments during the four year waiting period you must complete and submit a SFIA application Form TH1.

If you are buying or recently purchased land enrolled in SFIA, you and the seller must determine who will claim payment for the upcoming year. The Commissioner of the MN DOR must be notified in writing as to which person is eligible to claim the payment.

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.
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)]. The 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 un-platted 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 residnetially; 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 residnetially 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, CRP, CREP, RIM, or the Green Acres 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**

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](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 provides you with the greatest economic benefit requires a discussion you’re your county assessor. The county assessor will know how enrollment in these programs might affect your taxes on the land you plan to enroll and on land that you will not be enrolling. The following is an example that assumes no change in credits or special assessments between classifications. Your situation may be different, discuss your proposed changes with your county assessor.

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, and get a $7.00/acre incentive payment.
- Enroll in Class 2c. A 0.65% Class Rate may reduce your property taxes to an estimated $9.10 per acre. Always consult with the county assessor about how enrolling in 2C will affect your taxes. A 0.65% class rate is not a 35% reduction in taxes.

**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 \text{ tax/acre} \times 80 \text{ acres} = $1,120. The total SFIA incentive payment is: $7.00 \text{ payment/acre} \times 68 \text{ acres} = $476.00. The net out-of-pocket cost for property taxes is $1,120 - $476.00 = $644.00. The property tax payment of $1,120 may be deducted as an itemized expense on federal income taxes. The SFIA payment of $476.00 is taxable income.

Under Class 2c: Land eligible for Class 2c includes 67 acres of forest and 3 acres of open water lake. 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 \text{ tax/acre} \times 61 \text{ acres}) + (14/\text{acre} \times 19 \text{ 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 $644.00 under SFIA and under Class 2c it is $821.10. You appear to save $177.00 by enrolling in SFIA. 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 \times .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: $476.00 \times .10 = $47.60. Deduct this $47.60 from your SFIA payment: $594.32 - $47.60 = $546.72. 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 - $546.72 = $461.28. 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 \times .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 $461.28 after-tax cost under SFIA so you save $277.71 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 the county 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.
<table>
<thead>
<tr>
<th></th>
<th>Rural Preserve</th>
<th>SFIA</th>
<th>Class 2c</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>No minimum:</strong> land must be</td>
<td>No minimum</td>
<td>20</td>
<td>20 acres in contiguous parcels</td>
</tr>
<tr>
<td>contiguous to land owned by the</td>
<td>contiguous to</td>
<td></td>
<td></td>
</tr>
<tr>
<td>same owner that is enrolled in</td>
<td>land owned by</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Green Acres</td>
<td>the same</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>No maximum acres enrolled</strong></td>
<td>No maximum</td>
<td>20</td>
<td>1,920</td>
</tr>
<tr>
<td><strong>Public access not required</strong></td>
<td>Public access</td>
<td>20</td>
<td>Public access not required</td>
</tr>
<tr>
<td><strong>No buildings</strong></td>
<td>Exclude 3</td>
<td></td>
<td>Exclude 10 acres minimum for</td>
</tr>
<tr>
<td></td>
<td>acres minimum</td>
<td></td>
<td>building or other development</td>
</tr>
<tr>
<td><strong>Tax assessed on lower of Rural</strong></td>
<td>Class rate</td>
<td></td>
<td>0.65%</td>
</tr>
<tr>
<td>Preserve Value or Estimated Market</td>
<td>varies from 0.50% to 1.25% depending on class and property’s value. Pay usual property tax, but get $7/acre/year incentive payment</td>
<td></td>
<td>property tax class rate</td>
</tr>
<tr>
<td><strong>No Covenant required</strong></td>
<td>Covenant</td>
<td></td>
<td>No covenant required</td>
</tr>
<tr>
<td></td>
<td>required</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>8 year minimum enrollment</td>
<td></td>
<td>1 year minimum enrollment</td>
</tr>
<tr>
<td><strong>Property tax qualifies for itemized</strong></td>
<td>Property tax qualifies for itemized deduction on federal income tax return, but SFIA payment is taxable income</td>
<td></td>
<td>Property tax qualifies for itemized deduction on federal income tax return</td>
</tr>
<tr>
<td><strong>No plan required. Aerial photo with property lines delineated is needed for application</strong></td>
<td>No plan required. Aerial photo with property lines delineated is needed for application</td>
<td></td>
<td>Forest Management Plan required</td>
</tr>
<tr>
<td><strong>Application to the county assessor.</strong></td>
<td>Application to the Minnesota Department of Revenue</td>
<td></td>
<td>Application to the County Assessor</td>
</tr>
</tbody>
</table>
HOW TO GET FOREST MANAGEMENT ASSISTANCE

Request assistance now to insure that you have your plan completed before the tax program application deadline. The demand for assistance to write Forest Management Plans will build as more landowners decide to enroll in the SFIA, or Class 2c programs.

Forest Management Plans required for SFIA and Class 2c are available to landowners through the MN DNR Private Forest Management (PFM) partners (e.g., private forestry consultant or selected Soil and Water Conservation Districts). For a list of approved plan writers, go to this Website: http://sfec.cfans.umn.edu/stewardship-plan-writer.html or 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/. Other consulting foresters in your area may be approved to write plans. Be sure the forester has been approved by the MN DNR to write a Forest Management Plan or Stewardship Plan. A fee will be charged for a Forest Management Plan.

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.

For More Information

About Green Acres: Contact your county assessor or obtain the Minnesota Department of Revenue. Fact Sheet 5, Green Acres:


About Rural Preserve: Contact your county assessor.


About SFIA: Contact the MN DOR:
(651) 556-6088 proptax.questions@state.mn.us

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

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

About Class 2c: Contact your county assessor.

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

Management Plan Assistance:

For a Forest Management Plan required for SFIA or Class 2c, go to this Website: http://sfec.cfans.umn.edu/stewardship-plan-writer.html or contact the MN DNR or a consulting forester. DNR contact information:
www.dnr.state.mn.us/areas/forestry/index.html
REFERENCES

Minnesota Agricultural Property Tax or Green Acres. Minnesota Statutes, section 273.111.


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_supported_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


ACKNOWLEDGMENTS

Produced by University of Minnesota Extension in collaboration with:

University of Minnesota
Department of Forest Resources
Experiment in Rural Cooperation
Northeast Minnesota Sustainable Development Partnership

Minnesota Department of Natural Resources

Minnesota Department of Revenue

Minnesota Forestry Association

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