

Agriculture Taxes in Texas

Tax exemptions and special provisions are important to farmers and ranchers, but they are a relatively small part of the total tax exemptions and exclusions granted to taxpayers by state and local governments. As these laws are reviewed, farmers, ranchers and agribusiness managers — as well as governmental officials — need to be informed about the tax exemptions for agriculture and the potential effects of any proposed revisions.

Agricultural Taxes in Texas

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Like other businesses and most individuals, Texas agriculture and agribusiness firms pay state and local taxes and enjoy certain tax exemptions and special treatments provided by the Texas Tax Code.

This year, a legislative interim committee is reviewing tax laws in Texas. The committee is expected to recommend changes in these tax laws at the next legislative session.

Farmers, ranchers and agribusiness managers need to know about the current tax provisions that benefit their industry so they may be better informed in the upcoming debates over proposed tax revisions. They also need to know the appropriate state or local agencies to contact to take advantage of the tax benefits provided by Texas law.

Tax provisions for agriculture

Several tax provisions benefit Texas farmers, ranchers and agribusiness firms, including:

- Exemption from state and local sales and use taxes on purchased farm inputs and products.
- The provision for local property tax productivity valuation for open space land.
- Exemption from sales and excise taxes on fuel used on farms and ranches.
- Certain exemptions from state franchise taxes.

Of these, by far the most significant tax savers for farmers, ranchers and agribusinesses are the exemption from sales and use taxes at the state and local level and the provision for open space productivity valuation of land used in agriculture, timber or wildlife production.

Sales tax exemptions

Farmers and ranchers are exempt from state and local sales taxes for several items, including most inputs bought exclusively to produce agricultural goods and services. The exemption covers:

- Virtually all inputs purchased for farm and ranch use (such as feed, seed, equipment and chemicals).

- Products sold by farms and ranches (such as grain, milk, livestock and raw cotton).
- Certain processed product sales that meet the following exemption criteria: that the processing is done where and by whom the original products were produced; and that the processor does not process products for other agricultural producers (Texas Tax Code, 151.316). This provision applies to agricultural businesses that make value-added products from produce grown on the farm. An example would be apple-sauce, pies, etc. made on the farm where the apples are grown.

Without the sales and use tax exemption, farmers and ranchers would pay a 6.25 percent state tax plus a local sales tax of up to 2 percent – depending on local rates levied by cities and counties – on purchased inputs and product sales.

In 2001, the total sales tax exemptions granted on agricultural items amounted to almost \$306 million, according to the Texas Comptroller of Public Accounts (Table 1). Most of this exemption was for the purchase of feed, seed and supplies (\$230.2 million) and machinery and equipment (\$52 million) for use in producing agricultural products.

Although these tax savings are important to individual farmers and ranchers, these exemptions amounted to only 1.6 percent of the value of all sales tax exemptions in Texas in 2001. Moreover, this percentage is projected to decline to 1.4 percent of total sales tax exemptions by 2006 (Table 1).

For example, the total value of the sales tax exemption on agricultural items amounted to almost \$306 million. In contrast, exemptions on manufacturing materials, equipment and supplies totaled more than \$8 billion. Also, the value of sales tax exemptions on agricultural items trailed that of other exempted sales categories such as food for home consumption, and manufacturing and residential gas and electricity (<http://www.cpa.state.tx.us/taxinfo/incidence/>).

To obtain the sales tax exemption for any items purchased for farm or ranch use, complete a sales tax exemption form when buying the items.

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Table 1. Value of sales tax exemptions in agriculture.

Agricultural exemptions	2001 (millions of dollars)	2006 (millions of dollars)
Agricultural feed, seed and supplies	230.2	250.5
Livestock for food	12.3	13.4
Agricultural machinery and equipment	52.1	56.7
Horses, mules and work animals	8.4	9.2
Commercial fishing ice	0.1	0.1
Timber operations	2.6	13.7
Total agricultural exemptions	305.6	343.6
Exemptions in all other sectors	17,925.9	23,489.9
Total all exemptions	18,231.5	23,833.5
Agricultural exemptions as a % of total exemptions	1.6%	1.4%

Source: Texas Comptroller of Public Accounts

Productivity valuation of open space land

Texas is one of 40 states that permit farmland, rangeland and timberland to be valued for property tax purposes based on its “agricultural or timber productivity” value rather than on its market value. The property must be open space land used for farming, ranching or timber or for the promotion or preservation of wildlife.

Productivity value is an estimate of the value of the land if its use were limited to agriculture, timber or wildlife only, without influence from any other market forces that add value to the land. Therefore, the landowner pays taxes on a value that may be significantly below the market value, which is the basis for property tax valuation for most other properties.

Productivity valuation can be applied only to the land and appurtenances (fences, stock watering tanks, irrigation wells, etc.). The value of houses, barns, milking parlors and other improvements are calculated using conventional market-value appraisal methods.

To qualify for an “agricultural or timber productivity” valuation, the land must meet standards of “degree of intensity of use” set by the local appraisal district. These standards are based on the “typical” degree of intensive use within the appraisal district. The standards vary among counties because agricultural resources and uses differ across Texas.

This lowered valuation is a major benefit to farmers, ranchers and other owners of qualifying land. The provision is not a true exemption

because a rollback tax equal to the tax savings in the 5 most recent years (plus interest) must be paid when the land changes to a nonagricultural use. Hence, it becomes an exemption only for people holding land for more than 5 years. Nevertheless, this special treatment means more to landowners in tax savings every year than any other state or local tax exemption or provision for agriculture.

The Texas legislature recently approved another category of land use that qualifies for preferential assessment – wildlife management. Under this relatively new provision of the law, land that has qualified for valuation based on agricultural use may continue its qualification if the land is used to protect and promote wildlife and wildlife habitat. For the land to qualify, the landowners must follow guidelines established by the Texas Department of Parks and Wildlife.

Landowners interested in converting their land classification from agricultural use to wildlife use should contact their local county Central Appraisal District for more information on how to qualify.

Texas landowners enjoy significant school property tax savings from the open space valuation provisions (Table 2). In 2001, the school property tax savings to landowners in Texas from the open space valuation provisions amounted to \$1.162 billion. By 2006, this savings is projected to rise to \$1.588 billion because the market value of land is expected to rise while the productivity use values are expected to remain about the same.

Table 2. Value of the open space productivity valuation provisions in agriculture.

Estimates of	2001 (millions of dollars)	2006 (millions of dollars)
Land market value	90,213	113,867
Open space value	12,537	13,000
Taxable value reduction	77,676	103,867
Value of open space provision to landowners	1,160	1,558

Source: Lindsey, Ben, Property Tax Division, Texas Comptroller of Public Accounts, and author's projections.

Landowners also receive benefits from having lower county and city property taxes under this provision of the law. However, there is not enough information available now to estimate these tax savings across Texas.

The open space provision of the Texas Tax Code is often criticized because of the state's vast amount of rural land. However, the amount of revenue lost by school districts because of this provision is relatively low compared to that from all property tax exemptions and provisions of the Texas Property Tax Code. A partial list of tax savings (or public revenue loss) is available from the Texas State Comptroller of Public Accounts on the Web at <http://www.cpa.state.tx.us/taxinfo/incidence/>.

For example, the school property tax revenue loss from productivity valuations on land is less than that from homestead exemptions, which amounted to \$1.488 billion in 2001.

Moreover, because of a lack of data, there are no estimates for other, highly valuable, exempted properties such as religious and charitable organizations, educational institutions, personal property (vehicles, jewelry) or intangible property (bank deposits, stocks, bonds, etc.). The value of tax savings to individuals or public revenue losses to taxing jurisdictions from these

exemptions far exceed that of the open space provision for farm, ranch, timber and wildlife land.

More than 95 percent of the rural land that can qualify for open space assessment is already qualified. When open space land changes owners without changing use (from one farmer to another), the new landowner must file an application to continue qualifying for open space valuation of the land.

Information on how to apply and other aspects of the open space provision of the Texas property tax law may be obtained from the local county Central Appraisal District offices.

Motor vehicle sales and use taxes

Texas tax law does not provide a blanket exemption for motor vehicles used in agriculture. However, certain vehicles that have been modified to distribute feed or fertilizer may be exempt as farm machines from the motor vehicle sales and use tax of 6.25 percent.

Farmers and ranchers are projected to save about \$21.9 million in 2001 under this exemption (Table 3). These savings accrue to owners of

Table 3. Value of motor vehicle sales and use tax exemption in agriculture.

	2001 (millions of dollars)	2006 (millions of dollars)
Agricultural exemptions	21.9	24.4
Exemptions in all other sectors	139.0	164.6
Total all exemptions	160.9	189.0
Agriculture's exemption as a % of total exemptions	13.6%	12.9%

Source: Texas Comptroller of Public Accounts

specially adapted motor vehicles that are used exclusively for producing crops and livestock.

The law also provides exemptions to the motor vehicle sales tax for nonagricultural businesses. Agricultural producers account for about 13.6 percent of the total motor vehicles sales and use tax exemptions of \$160.9 million statewide (Table 3).

For information on the motor vehicles sales and use tax, exemptions from the tax and other information, see the Web site of the Texas State Comptroller of Public Accounts at <http://www.window.state.tx.us>.

Fuel tax exemption

Much of the gasoline and diesel bought by farmers and ranchers is used for off-road purposes. Hence, such fuels qualify for an exemption from the motor fuel tax on that portion not used on public highways.

In 2001, this exemption saved farmers and ranchers \$12.7 million, amounting to about 10.2 percent of the value of all exemptions under this law (Table 4). In 2005, the value is projected to remain at just over 10 percent of the total.

For information on the motor fuels tax, exemptions and other provisions, see the Web site of the Texas State Comptroller of Public Accounts at <http://www.window.state.tx.us>.

Summary

Agriculture enjoys several exemptions and favorable provisions to state and local taxes. The total savings to agriculture and agribusiness was about \$1.5 billion in 2001. By 2006, it is projected to be more than \$1.9 billion (Table 5).

Several conclusions can be drawn from the projections of tax savings benefits to agriculture and agribusinesses:

- Tax exemptions and special provisions are important to farmers and ranchers. The total tax savings from all exemptions (for which there are data) totaled \$1.5 billion in 2001. This total amounted to almost one-half of the \$3.6 billion in average annual net farm income in Texas, as reported by the Economic Research Service of the U.S. Department of Agriculture.
- By far the greatest benefit (77 percent) to farmers and ranchers is derived from the open-space land valuation provisions and subsequent savings in local school property taxes. The actual total benefit is even higher because of city and county exemptions, for which there are not sufficient data.
- The loss of state and local tax exemptions and provisions would seriously harm the agricultural sector in Texas.
- Although the tax exemptions and special provisions grant farmers and ranchers significant tax savings, agricultural exemptions are a relatively small part of the total tax exemptions and exclusions granted by state and local governments to taxpayers.
- Eliminating the open space exemptions would yield the state and local governments more tax revenue, but the increase would be relatively small. Because the exemption on average tends to be a low percentage of total property values, the increase in total tax revenue would be relatively smaller compared with potential revenues from other tax exemptions and exclusions or with total expenditure needs.

Table 4. Value of the fuels tax exemptions in agriculture.

	2001 (millions of dollars)	2006 (millions of dollars)
Agricultural exemption	12.7	14.5
Exemptions in all other sectors	111.3	126.5
Total all exemptions	124.0	141.0
Agricultural exemption as a % of total exemptions	10.2%	10.3%

Source: Texas Comptroller of Public Accounts

Table 5. Value of tax exemptions and provisions for agriculture.

Tax exemption or provision	2001	2006
	(millions of dollars)	
Sales tax exemption	305.6	343.6
Open space land valuation	1,160.0	1,558.0
Motor Vehicle exemption	21.9	24.4
Fuels tax exemption	12.7	14.5
Total	1,500.2	1,940.5

For more information

Economic Research Service, U.S. Department of Agriculture, <http://www.ers.usda.gov>.

Texas Comptroller of Public Accounts, Austin, <http://www.window.state.tx.us> or <http://www.cpa.state.tx.us>.

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