



Qualified Forest Property Tax Program

Karen Potter-Witter
Professor, Department of Forestry

Qualified Forest Property Program

Public Act 378, 379 and 380 enacted in September 2006, created the Qualified Forest Property (QFP) program. This is an opportunity for owners of smaller forestland parcels in Michigan which are not classified as agricultural land or do not receive a homestead exemption to receive reduced property taxes on land in productive, managed forests. The benefit to landowners from enrolling in QFP is that the enrolled forestland is exempt from certain school operating taxes (up to 18 mills) if it meets specified size, productivity and management requirements. In addition those acquiring QFP enrolled property may apply to their local government to prevent the taxable value from being “uncapped”, which would normally occur at the time of transfer of property. When a taxable value is uncapped it is recalculated based upon the state equalized value (SEV) at the time of transfer. Unlike property enrolled in the Commercial Forest Program, QFP enrolled property does not have to be open to public access.

Eligibility

The minimum size parcel that may be enrolled in the program is 20 contiguous acres. This ensures that the property is large enough for forest management. Additionally no more than 320 acres per landowner may be enrolled in any one tax unit. At least 80% of the parcel must be productive forest. The standard for productive forest is that it is capable of growing at least 20 cubic feet per acre per year; or approximately one-quarter of a cord of timber per acre per year. The forestland must also be stocked with forest products, for example timber, pulpwood and related products. Stocked means that the forestland must have a sufficient number of trees per acre or a sufficient percentage of the area occupied by trees that would produce a forest product. Since the forestland is to be devoted to forest management there cannot be any buildings or structures on the enrolled parcel. Property owners who wish to separate a part of a property, for example to separate a parcel with a structure from one with a structure, must have had the property split according to the local land subdivision provisions before an application can be approved.

Eligibility

- 20 or more contiguous acres
- 80% or more in productive forest
- capable of growing 20 cubic feet per acre per year or more
- no buildings or structures
- an approved forest management plan
- annually report timber production

Productive forests are those which have sound management plans. To be eligible to be enrolled in the QFP (and to stay enrolled), the forestland parcel must be subject to a Michigan Department of Natural Resources (DNR) approved forest management plan. This plan must be updated every 20 years. There is a \$200 fee for DNR review of the plan. Applicants may instead submit a plan approved by a third party certifying organization¹, in which case the DNR review fee is \$100. Each plan must include a map of the property as well as a “description of practices that will be undertaken and estimate of time before each is completed, the soil conservation practices that may be necessary, and the activities for the management of forest resources other than trees” (as stated in PA 378). Additionally, the applicant must also “attest” that the property will be managed according to the plan. Since forest productivity is an important provision of QFP, forestland owners must report the amount of timber produced on their enrolled lands each year to the Michigan Department of Natural Resources.

Application

The administration of QFP is shared between the Michigan Department of Treasury, the Department of Natural Resources and the local government in which the property is located. The Department of Treasury produces the enrollment applications; the Department of Natural Resources collects the annual timber harvest reports, reviews the management plans and makes its recommendation.

Applications must include a proposed forest management plan for approval by the DNR or a third-party certified plan and a Department of Treasury application form, "Claim for Qualified Forest Property Exemption from Some School Operating Taxes" (www.michigan.gov/documents/dnr/4449_fillable_189828_7.pdf). These are due to the DNR by November 1st. In order to be considered for enrollment for the following tax year, the approved plan and the affidavit must then be submitted to the local assessor by December 31st. The local assessor determines if property qualifies for QFP enrollment based upon the recommendation from the DNR. There is a statewide limit on the acreage permitted to be enrolled². The local assessor also ensures that state enrollment in QFP has not exceeded the proscribed limits within the local unit (320 acres per owner).

Withdrawal from QFP and Transfer of Ownership

Forestland owners should carefully consider their decision to enroll property in the Qualified Forest Property program. While QFP provides property tax relief to qualified forestland owners, it is clearly intended for those committed to long term management of their forests. Land enrolled in the program may be transferred to a new owner and enrollment continued by filing Form 4508 with the register of deeds and the local assessor. This filing will allow the taxable value of the property to stay capped. If the local assessor approves the property he/she will notify the DNR of the change of ownership.

To withdraw from the QFP the property owner must file a rescission form (Form 4450) with their local unit of government. All withdrawals are subject to the QFP recapture tax which consists of two parts. The first part of the recapture tax is calculated the same way regardless of how long the property had been enrolled. But, it does depend upon whether or not there had been at least one harvest of forest products on the property. If one or more harvests had taken place, the recapture tax is equal to the state equalized value, at time of conversion from qualified forest property; multiplied by the millage rate multiplied by seven. If no harvest had taken place the recapture tax is equal to the state equalized value at time of conversion multiplied by the millage rate multiplied by seven multiplied by two.

Application

- application form (affidavit)
- forest management plan received by November 1st for DNR approval
- Forwarded by DNR to local tax assessor for receipt by December 31st

Recapture Tax Due Upon Withdrawal

- **Part 1**

*SEV at time of conversion x millage rate x 7 if there has been **at least one harvest***

or

*SEV at time of conversion x millage rate x 7 x 2 if there have been **no harvests***

plus

- **Part 2**

School operating tax X current SEV x # of years enrolled since any transfer of the property up to 10 years

Recapture Tax Example 1

A 20 acre parcel enrolled in QFP for 10 years is being withdrawn. It currently has a taxable value capped at \$10,000 and a SEV of \$27,000. There was one harvest on the property during enrollment. There were no transfers of the property during this time.

Recapture Tax Part 1 =

$$\begin{aligned} & SEV \text{ at time of conversion} \times \text{millage rate} \times 7 \\ & = 27,000 \times 40.5 \text{ mills} \times 7 \\ & = \$7,655 \end{aligned}$$

Without a harvest the recapture tax would have been

$$\begin{aligned} & = 27,000 \times 40.5 \text{ mills} \times 14 \\ & = \$15,309 \end{aligned}$$

Recapture Tax Part 2 = not applicable

The second part of the recapture tax is due if there had been a transfer of the property while in QF for which the property's taxable value was not uncapped. The tax is calculated based upon the length of enrollment since a transfer, which is called the "benefit period" in the Act. This recapture tax equals the additional taxes that would have been paid since the transfer and is calculated based upon the school operating expense millage, up to 18 mills, from which the property owner was exempt; times the difference between the current SEV and the taxable value after an exempt transfer of ownership; times up to 10 years of the benefit period.

Enrollees should contact their local assessor for help in calculating Part 2 of the recapture tax.

Recapture Tax Example 2

A 20 acre parcel enrolled in QFP for 10 years has a current taxable value of \$10,000 and a SEV of \$27,000. There was one harvest on the property during enrollment. The property was sold in the 8th year of enrollment and the new purchaser applied for and was granted continuance of QFP enrollment.

Recapture Tax Part 1 =

$$\begin{aligned} \text{SEV at time of conversion} \times \text{millage rate} \times 7 \\ = 27,000 \times 40.5 \text{ mills} \times 7 \\ = \$7,655 \end{aligned}$$

Recapture Tax Part 2 =

Local millage levied during benefit period x (current SEV- taxable value at time of transfer) for the number of years enrolled since a transfer, up to 10 years

Year	SEV	Reported Taxable Value	Uncapped Taxable Value	Difference	Benefit = Difference x Millage
8	40,000	29,597	40,000	10,403	301
9	42,000	30,781	41,600	10,819	292
10	44,000	31,704	42,848	11,144	281
Total Tax					874

Additional information

Additional information is posted at the DNR Forest, Mineral, and Fire Management – Forest Management and Planning web site at: http://michigan.gov/dnr/0,1607,7-153-30301_30505---,00.html

This fact sheet is not intended to replace the counsel of your attorney or tax consultant. As always, confer with them before making any decisions which would affect your financial well being. For clarification of the requirements of the Qualified Forest Program (Public Acts 378, 379 and 38) consult the Michigan Departments of Treasury and of Natural Resources.

¹ To date the Forest Stewardship Council and the Sustainable Forestry Initiative are the approved third party certification programs.

² Statewide total of 300,000 acres in 2008; 600,000 acres in 2009; 900,000 acres in 2010; 1,200,000 acres in 2011 and after.

