



Qualified Forest Property Tax Program

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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 the Qualified Forest Property program is that the enrolled forestland is exempt from certain school operating taxes (18 mills) if it meets certain size, productivity and management requirements. In addition purchasers of QFP enrolled property may apply to their local government to prevent the property valuation from being “uncapped”, which would normally occur at the time of transfer of property.

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. Unlike property enrolled in the Commercial Forest Program, QFP enrolled property does not have to be open to public access.

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 an approved forest management plan. The plan must be approved by the Department of Natural Resources for a fee of not more than \$200; or it may be approved by a third party certifying organization¹. 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.

Eligibility

- *20 or more contiguous acres*
- *at least 80% in productive forest*
- *no buildings or structures*
- *has an approved forest management plan*
- *annually report timber production*

Application

- *application form (affidavit)*
- *forest management plan, approved by the DNR and submitted by November 1st*
- *submitted to local tax assessor by December 31st*

¹ It is not yet specified as to which third party forest certification organizations are approved for QFP plans. However, since state forest lands are certified under the Forest Stewardship Council and the Sustainable Forestry Initiative, these certification programs will be likely, but perhaps not the only, choices.

To apply to the QFP, the forestland owner must provide 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*”, 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. The local assessor also ensures that state enrollment in QFP has not exceeded the proscribed limits.²

Withdrawal from QFP

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.

To withdraw from the QFP the property owner must file a rescission form with their local unit of government. There is a significant penalty, called the recapture tax, for property that is withdrawn from QFP and then “converted by change in use”. The amount of the penalty depends upon whether or not there had been a previous transfer of the forestland while it was in the QFP and the transfer was exempt from any increase in taxable value due to a new assessed value at the time of transfer, i.e. a “pop-up” of taxable value. If this is the case, then the recapture tax due will be equal to the amount of taxes that would have been paid if the forestland was not in QFP during the period since the last transfer, but for not more than a total of the immediately preceding 10 years of tax payments.

Withdrawal penalty with no prior transfer of ownership with QFP tax exemption

The amount of taxes that would have been paid since the last ownership transfer while enrolled in QFP (i.e. the “benefit period”) but not to exceed the 10 years immediately prior to the conversion.

In the case where the forestland was in the QFP prior to the current ownership, and the taxable value was not “uncapped”, then the withdrawal penalty depends upon whether or not any timber harvest had taken place during the property’s enrollment in QFP. If one or more harvests had taken place the recapture tax is equal to the state equalized value at time of conversion multiplied by the millage rate times 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 times seven times two. So the recapture tax will be twice as much if there has been no timber harvesting on the property.

Withdrawal penalty with prior transfer of ownership with QFP tax exemption that was not uncapped

- ***at least one harvest:***
SEV at time of conversion x millage rate x 7
- ***no harvest:***
SEV at time of conversion x millage rate x 7 x 2

Additional information

Additional information and specific procedures will be forthcoming this year as the Department of Treasury completes the necessary groundwork and application forms. Current information is posted at the DNR Forest, Mineral, and Fire Management - Private Forests web site at: http://www.michigan.gov/dnr/0,1607,7-153-30301_30505-159665--,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. The Michigan Departments of Treasury and of Natural Resources are in the process of writing the rules which will accompany Public Acts 378, 379 and 38. These rules will provide further clarification regarding the Qualified Forest Program.

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.