

 **Taxes**

Property Tax Assistance

**Cap Rate for Special Valuations**

Qualified agricultural or open-space and timberland are taxed on productivity rather than market value. The aim is for landowners to realize property tax savings to encourage them to continue to produce vital agricultural products, such as livestock, cotton, timber, milk and corn.

The capitalization rate (cap rate) is one of many factors used by appraisal districts to value agricultural and timberlands. Other factors also affect the final productivity values, including local agricultural trends, income and expense information, property characteristics and the property's agricultural use.

Tax Code sections 23.53 and 23.74 prescribe the methods for determining the cap rate used to calculate agricultural and timberland values. To determine productivity values, appraisal districts calculate the typical property owner's income generated by the land and subtract certain expenses such as property taxes and the cost of fencing and irrigation wells, for example. The result is commonly known as net-to-land. Appraisal districts divide the average net-to-land for a five-year period by the annual cap rate to arrive at the land's productivity value.

In 2024, appraisal districts must use a cap rate of 10.60 percent for appraising agricultural or open-space land and a cap rate of 7.85 percent for appraising timberland.

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**▼ Agriculture Land Cap Rates**

For agricultural or open-space land, Tax Code Section 23.53 requires appraisal districts to use a cap rate that is the greater of 10 percent or the interest rate specified on the previous Dec. 31 by the Farm Credit Bank of Texas plus 2.50 percent. The bank's interest rate on Dec. 31, 2023, was 8.10 percent. With the 2.50 percent added, that rate became 10.60 percent. Since 10.60 percent is the greater rate,

the 2024 cap rate is 10.60 percent. The last time the cap rate was not 10 percent was 2007, when it was 10.13 percent.

### Agriculture Land Cap Rates

Year	Percent
2014	10
2015	10
2016	10
2017	10
2018	10
2019	10
2020	10
2021	10
2022	10
2023	10
2024	10.60

### ▼ Timberland Cap Rates

Appraisal districts must use a 2024 timberland cap rate of 7.85 percent. In 2003, the 78th Legislature, Regular Session approved a provision that imposed a new method for determining the cap rate used to calculate timberland productivity values as of Jan. 1, 2004. The changes resulted in less volatility in the cap rate and more stability in timber productivity values. The goal was to slowly move to a cap rate based on a five-year average.

After January 2004, and when the interest rate specified by the Farm Credit Bank of Texas on Dec. 31 plus 2.50 percent is greater than or equal to 10 percent, the cap rate for that year is the interest rate plus 2.50 percent. The following year the cap rate is the average of the Dec. 31 interest rate plus 2.50 percent and the previous years' cap rate for the previous four years as provided by Tax Code Section 23.74.

The year 2007 was the first time since the change in the law that the interest rate plus 2.50 percent was greater than 10 percent. As you can see in the following table, the cap rate for the first year was the interest rate plus 2.50 percent, or 10.13 percent. In the following years, the cap rate was determined by averaging the Dec. 31 interest rate plus 2.50 percent and the previous years' cap rates excluding the years before 2007.