State of California

BOARD OF EQUALIZATION

PROPERTY TAX RULES

Division 1. State Board of Equalization-Property Tax
Chapter 1. Valuation Principles and Procedures

Rule 53. Open-Space Value of Timberland.

Authority: Section 15606, Government Code.
Reference: Sections 110, 401 and 423.5, Revenue and Taxation Code.

(a) THE TIMBER APPRAISAL UNIT. The timber appraisal unit shall be as defined in Property Tax Rule No. 41, except that it shall include only properties eligible for assessment under section 423.5 of the Revenue and Taxation Code.

(b) TAXABLE VALUE. Land and standing timber used for the production of timber for commercial purposes, whether planted or of natural growth, when eligible for assessment under section 423.5 of the Revenue and Taxation Code, shall be valued by determining the present worth of the net income which the future harvest of timber crops can reasonably be expected to yield and the present worth of the net income attributable to other allowed compatible uses of the land. The value of timber which is exempt under Article XIII, section 3(j) of the State Constitution shall be excluded when determining taxable value of the property, but the value of land supporting exempt timber shall be included and determined in accordance with section (f).

(c) NET INCOME. The amount of income to be capitalized is the net income which an informed owner or an informed buyer of the timber appraisal unit may anticipate on the lien date that the property assessable under section 423.5 of the Revenue and Taxation Code will yield in the future from the harvest of timber crops and the net income from other allowed compatible uses of the property. Net income shall be estimated as follows:

(1) When computing the expected annual or periodic net income from the harvest of timber crops, the appraiser shall determine the difference between revenue and expenditures. Revenue shall be estimated by multiplying the expected annual or periodic volume of timber to be harvested in the future by the immediate harvest value per unit of volume for similar timber. Revenue shall include all income from all forest products. Expenditures shall include the estimated outlays of money which are ordinary and necessary for the production and maintenance of revenue as defined in section 423 of the Revenue and Taxation Code.

(2) When computing the net income attributable to compatible uses, the appraiser shall determine the difference between revenues and expenditures for each type of compatible use. Revenue shall be estimated on the basis of rents, fees, or charges for the use as provided by recently consummated leases, contracts, or verbal agreements on the subject property or comparable properties. Expenditures shall include any outlays which are ordinary and necessary for the production of revenue from the compatible use.

(d) INCOME CAPITALIZATION. The shape of the future net income stream shall govern the method used to discount the various future incomes.

(1) If the property is capable of producing an equal annual income in perpetuity or may be valued as if it will produce an equal annual income, the expected annual net income shall be divided by the capitalization rate to estimate present worth.

(2) If the property is capable of producing an equal periodic income or an income in perpetuity or may be valued as if it will produce an equal periodic income, the expected net income shall be divided by $(1+p)^{n}-1$, where n is the number of years between receipt of the periodic incomes and is the capitalization rate.

(3) If the property is not capable of producing perpetually and equal annual income or an equal periodic income, but is capable of producing unequal annual or periodic incomes at regular or irregular intervals, the present worth of the net income stream shall be estimated by computing the sum of the present worths of the individual incomes on a year-by-year or period-by-period basis.

(e) AREAS WITHOUT TIMBER EXEMPTION. The appraiser shall estimate the annual or periodic net income from these areas in accordance with section (c). Taxable value will be the present worth of land and timber in accordance with section (d), using the capitalization rate prescribed in section 423(b)(1), (2), and (3) of the Revenue and Taxation Code.

(f) AREAS WITH TIMBER EXEMPTION. In determining the taxable value for these areas by excluding the value of exempt timber, the appraiser shall:

(1) Derive a total value for the land and exempt timber by:

(A) Estimating the annual or periodic net income from these areas in accordance with section (c).

(B) Computing the present worth of the land and timber in accordance with section (d), using a capitalization rate which is the sum of the bond and risk rate components prescribed in section 423(b)(1) and (2) of the Revenue and Taxation Code.

(2) Allocate the total value derived in (1) between the land and exempt timber by:

(A) Estimating the market value of the property using the comparative sales approach.

(B) Subtracting the estimated market value of the timber. The remainder will be the estimated market value of the land under the exempt timber and is to be used only for purposes of allocating present worth between the exempt timber and the land thereunder.

(C) Multiplying present worth of the property, as determined in (1)(B), by the ration of the market value of the land to the total market value of the property, as determined from (2)(A) and (B), to derive the present worth of the land plus the present worth of the taxes.

(D) Computing the taxable value of the land by multiplying the present worth derived in (2)(C) by a fraction in which the numerator is the sum of the capitalization rate components prescribed in section 423(b)(1) and (2) and the denominator is the sum of the capitalization rate components prescribed in section 423(b)(1), (2), and (3).

(g) TOTAL TAXABLE PROPERTY VALUE. The taxable value for the nonexempt areas, as determined in section (e), shall be added to the taxable value for the exempt areas, as determined in section (f), to determine the total taxable property value. The value assigned to each parcel in the unit shall reasonably reflect each source of income that is attributable to the parcel.

(h) EFFECTIVE DATE. This rule shall be effective from and after March 1, 1973.

History: Adopted November 16, 1972, effective March 1, 1973.
Amended December 17, 1975, effective January 25, 1976.