



Texas Property Tax Law Changes Impact Development of Agricultural Land

Recently, during the 86th Texas legislative session, more than 10,000 bills were filed. Not surprisingly, some of the bills that were filed (and then ultimately passed into law) [impact the real estate industry](#) — and, more specifically, agricultural land. But how will this likely impact real estate developers and builders throughout Texas? What changes will this bring about?

Agricultural rollback taxes and changes in the Texas property tax law are perhaps the most important. Let's take a look at how these will impact the real estate sector.

Agriculture Rollback Taxes

A recent Texas legislative act will likely have a profound impact on the development of agricultural land. As of September 1st, 2019, any property owner who currently has an [agricultural classification](#) on their land, and then that classification is removed due to development of the property, will only be liable for three years of rollback taxes, instead of five.

Simply put, this means that property owners who develop their AG (agricultural) land or sell it to be developed will have to pay two fewer years of rollback taxes on the difference between the agricultural classified value and the market value for those years — which is usually a pretty substantial difference.

The agricultural classification was designed to keep farmers from being taxed out of their land in areas of rising values, as long as they continue to use their property for agricultural purposes, such as farming, timber, raising cattle or livestock, or something similar. The rollback taxes were intended to serve as recoupment by the county for the previous five years the property owner was benefitting from such classification. Now, however, that period is cut to three years and could possibly spur more development of large tracts that are currently being used for agricultural purposes.

In addition to the reduction of rollback years, the state legislature also reduced the annual interest rate imposed on the rollback taxes from 7 percent to 5 percent. The interest rate is applied to the rollback taxes as a way for the county to recoup any lost interest they could have earned on the taxes had the property been assessed at full market value in the previous years.

To put it another way, many landowners in Texas have held onto their land with an agricultural designation before being developed into another type of property. Why? Simple — because agricultural land affords tax breaks and savings. Once the land was designated for another purpose, such as commercial development, the property owner was then responsible for a 5 year back pay rollback tax, the difference between the taxes that were paid on the land's agricultural value and the taxes that would have been paid if the land had been taxed at its higher market value.

Now, landowners are only responsible for paying a rollback tax for a period of 3 years, and only pays 5 percent interest, rather than the previous 7 percent interest, for each year from the date the taxes would have been due.

Keep in mind that not only does this law go into effect on September 1, 2019, it also only applies to land that is appraised on or after the same date.

For landholders and investors, this is a unique opportunity. It will not be surprising to see a wealth of agricultural land hit the market, as lower taxes and interest will spur those who were previously holding their land to avoid the tax concerns at the time of sale.

For more information about how changes in property tax law can affect commercial real estate investing, [contact us](#) or visit our [website](#).