

# Property Classification Guide

## Reports of Property Value



Texas Property Tax

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May 2007



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# Purpose of the Property Classification Guide

This guide assists appraisal districts in classifying property. For further assistance, please call the Reporting Section of the Property Tax Division (PTD) at (800) 252-9121.

## Why is Property Classification Important to a School District?

The Comptroller's School District Report of Property Value includes category codes and appraisal roll values. These values are used to calculate market value estimates for each property category. Specifically, the reported value in a category divided by the Comptroller's appraisal ratio for the category equals the market value estimate for the category:

$$\frac{\text{Reported Value of Category A}}{\text{Appraisal Ratio}} = \frac{\text{Category A Market Value Estimate}}{\text{Market Value Estimate}}$$

The Texas Education Agency uses the Comptroller's market value estimates in determining the level of funding for each school district in the state. When properties are misclassified, values reported in various categories are probably incorrect. Incorrect reported values lead to inaccurate market value estimates, which can adversely affect school funding.

The accuracy of the data is expected to improve as more districts participate in Electronic Appraisal Roll Submission (EARS), a process of submitting appraisal roll data on electronic media rather than paper.

## What Should Be Considered in Determining Appropriate Property Classification?

Current property use is the primary consideration in determining appropriate property classification. If you have doubts about the appropriate classification of particular properties, call the Reporting Section at (800) 252-9121. Your questions will alert the Comptroller's staff to the potential for classification errors.

# Property Classifications

Property classifications include these categories:

- A: Real Property: Single-Family Residential
- B: Real Property: Multifamily Residential
- C: Real Property: Vacant Lots and Tracts
- D1: Real Property: Qualified Agricultural Land

### Sub Classifications for Agricultural and Timberland

- Irrigated Cropland
- Dry Land Cropland
- Barren/Wasteland
- Orchards
- Improved Pastureland
- Native Pastureland
- Timberland (at productivity)
- Timberland (at 1978 Market Value)
- Timberland in Transition
- Timberland at Restricted Use
- Other Agricultural Land  
(describe agricultural use)

- D2: Real Property: Non-qualified land
- E: Real Property: Farm and Ranch Improvements
- F1: Real Property: Commercial
- F2: Real Property: Industrial (Manufacturing)
- G1: Real Property: Oil, Gas and Other Minerals
- G2: Real Property: Other Mineral Reserves
- G3: Real Property: Non-producing Minerals
- H: Tangible Personal Property: Non-business Vehicles
- J: Real and Tangible Personal Property: Utilities
- L1: Personal Property: Commercial
- L2: Personal Property: Industrial (Manufacturing)
- M1: Mobile Homes (Owner different from landowner)
- M2: Other Tangible Personal Property Not Taxable
- N: Intangible Personal Property Only
- O: Real Property: Residential Inventory
- S: Special Inventory
- X: Totally Exempt Property

# CATEGORY A

## Real Property: Single-Family Residential

### Which Properties are Classified in Category A?

Category A property includes single-family residential improvements and land on which they are situated. Typically, Category A properties are single-family homes on tracts of land or platted lots. They may or may not be within the city limits or in close proximity to a city. Even large tracts of land should be classified as Category A property when the use is residential. The use is residential when the land is primarily to enhance the enjoyment of the residence.

Townhouses, condominiums, row houses and owner-occupied duplexes are included as Category A property. Mobile homes located on land owned by the occupant are classified as Category A property.

### Important Notes in Classifying Single-Family Residential Property

- There is no acreage limit. Property use is the determining factor in single-family residential property.
- All non-farm or ranch, single-family residential property should be in Category A unless the property is real property inventory.
- The land and all residential improvements constitute one residence.
- If the residence has never been occupied and is residential inventory, it should be classified as Category O property.

### Category A Classification Questions

- Q. A rural subdivision in my district is located 2.5 miles from the city limits. The lots in the subdivision are six acres or less. Currently, only one house has been constructed in the subdivision. How should this house be classified?**
- A. If the use of the land and house is residential, this property should be classified as Category A property unless it is listed as residential inventory; then it should be classified as Category O property.
- Q. I received a homestead exemption application for a house located on a small farm of 40 acres. The owner requested that three acres be included in his homestead exemption. Is the house a Category A property?**
- A. No. The use of most of the land in this example indicates that the primary use is not residential but agricultural. The house and three acres designated for residential use are a Category E property.
- Q. A number of houses owned by the resident are located in my district. The residents do not, however, own the land. Is this Category A property?**
- A. Yes, this is Category A property.
- Q. A mobile home and land are listed separately, but are owned by the occupant. In which categories should they be reported?**
- A. When the mobile home and land are owned by the occupant, both accounts should be reported as Category A property. Listing each account separately does not change the principal use or category.
- Q. A single-family residence was included as Category A property. Before January 1, the improvements were destroyed. How should the property be classified?**
- A. If all improvements were removed, the remaining value would be attributable to the lot. Although the lot may have utilities in place, the principal use of the property would be a building site. The lot should be classified as Category C property.
- Q. One of our citizens owns a home and an adjacent lot. Both the home and lot are used as a residence. How should the appraisal district classify the adjacent lot? As a vacant lot under Category C or as a residential property under Category A?**
- A. The classification of any property depends on its use. Since the adjacent lot is primarily residential, it should be classified as Category A.

## CATEGORY B

### Real Property: Multifamily Residential

#### Which Properties are Classified in Category B?

Category B properties are residential improvements containing two or more residential units under single ownership. Properties classified as Category B generally include apartment complexes. If listed separately, apartments located above street-level stores or offices are also included in Category B. If not listed separately, the predominant use by value determines classification.

#### Important Notes in Classifying Multifamily Residential Property

- Do not confuse Category B properties with hotels and motels, even when their occupancy turnover rate is high. Hotels and motels are commercial real properties (Category F1) and are never classified as Category B property.
- Do not classify owner-occupied duplexes, triplexes and fourplexes as Category B property. They are classified as Category A property. Non-owner-occupied duplexes, triplexes and fourplexes should be classified as Category B property.
- Do not classify condominiums or townhomes as Category B property. They are classified as Category A property.
- If the property is owned by a developer or builder, has never been occupied and meets the other tests for Category O property, it should be classified as Category O.

#### Category B Classification Questions

- Q. The owner of a duplex lives in one of the units. He applies for and receives a homestead exemption on the part of the duplex in which he resides. How should the duplex be classified?**
- A. Owner-occupied duplexes, triplexes, and fourplexes are classified as Category A property.

Note: If the owner occupies one of the units, then all of the property becomes Category A property.

- Q. An attorney owns a three-story building on a main street. The street-level floor contains an office and three apartments. The upper two floors consist solely of apartments. How should this property be classified?**

- A. The predominant value of this building is multifamily and this property should be included as Category B property.

- Q. Are hotels and motels included as Category B property?**

- A. No. Hotels and motels are not considered multifamily residences. Their real property is classified as Category F1 property and the personal property belongs in Category L1.

## CATEGORY C

### Real Property: Vacant Lots and Tracts

#### Which Properties are Classified in Category C?

Generally, Category C properties are small vacant tracts of land. These properties may be idle tracts in some stage of development or awaiting construction, tracts planned for residential structures, recreational lots or commercial and industrial building sites. Because property use determines classification, there is no minimum or maximum size requirement for Category C property. Category C properties are usually identified by subdivision name and lot and block number, abstract or section. If a vacant lot is held by a developer or builder and meets the other tests for Category O property, it is considered real property inventory and classified as Category O property.

Lots with nominal improvements that do not appear appropriate for classification as Categories A, B, E or F property are typically experiencing a change in highest and best use or have improvements with limited economic benefit to the land. In cases where the lot would be at least as valuable with the improvements removed, the lot should be classified as Category C property. Again, classification is determined by use. Generally, Category C property is most suited for use as a building site.

## Important Notes in Classifying Vacant Lots

- Vacant lots are potential building sites or are reserved for recreational use.
- Vacant lots are usually described in terms of lot and block, abstract or section identified by a subdivision name.
- Vacant lots have no minimum or maximum size requirement.

## Category C Classification Questions

- Q. A one-owner property has 50 vacant acres located 30 miles outside the city limits. The land's primary use is to graze cattle. The owner has subdivided the land into 10 five-acre tracts. Are these considered vacant lots?**
- A. No. In this example, the primary use of the land is agricultural, Category D.
- Q. A builder owns one unimproved three-acre parcel on which he intends to build a home for sale. Is this Category C property?**
- A. If this property is listed as inventory, it is considered a residential inventory property and would be classified as Category O property; if not, it would be listed as Category C property.
- Q. An individual has purchased a building site in anticipation of constructing a residence. The site has utilities, curbs, gutters, sidewalks and a street entrance. Should it be classified other than Category C property?**
- A. The principal use of the property determines the category. Although the site is prepared, it should be considered a vacant lot and classified as Category C property. Once the residence is constructed, the class should be changed from C to A.
- Q. If a lot has a partially completed house that is not yet habitable, how is the lot classified?**
- A. The lot would be classified as Category A because it is residential.

## CATEGORY D1

### Real Property: Qualified Agricultural Land

#### Which Properties are Classified In Category D1?

All acreage qualified for productivity valuation under Article VIII, 1-d, or 1-d-1, Texas Constitution, should be classified in Category D1 on the Report of Property Value.

#### Important Notes in Classifying Category D1 Property

- If you report acreage under Category D on your electronic appraisal roll submission (EARS), PTD will use the productivity valuation field to categorize the acreage as either D1 or D2. You do not need to re-code Category D acreage into D1 and D2 for EARS purposes.
- You must report each subclass of agricultural or timber use properties on the hard copy or Excel reports, and the land classes should be a part of the appraisal record of the property on the appraisal district's records system. If your school district wants to ask for an audit of previous years' values, the district must furnish a complete updated self-report, including the breakdown of the ag use category for each year in question to receive a new certification to the Commissioner of Education.
- Improvement value (such as barns or houses) should not be reported as Category D1 property. Improvement value should be reported in Category E.
- Any size tract may be reported in Category D1. If the land is qualified for productivity valuation, it should be reported in Category D1 regardless of size.

#### Category D1 Classification Questions

- Q. A farmer owns a 200-acre tract of land and the land is receiving productivity appraisal. Additionally, the farmer's primary residence (homestead) is located on the land. Which properties are classified as Category D1 property?**
- A. The acreage receiving productivity appraisal is classified as Category D1 property. The residence and land



that is a part of the homestead is classed as Category E property.

- Q. A farmer owns three tracts of land. One is a 10-acre tract with four storage barns; one is a 225-acre wheat and cotton farm; both are qualified for productivity valuation. The third tract is on two acres on which the farmer has his primary residence (homestead). Which properties are classified as Category D1 property?**
- A. Category D1 property should include the 225-acre wheat and cotton farm and the 10-acre tract. Report the subclass for each agricultural use land class. The value of the four barns and the homestead's two acres and residence should be classified as Category E.

## CATEGORY D2

### Real Property: Non-Qualified Land

#### Which Properties are Classified In Category D2?

Raw acreage that is not qualified for productivity valuation should be reported as D2 property.

#### Important Notes in Classifying Category D2 Property

- If you report acreage under Category D on your electronic appraisal roll submission (EARS), PTD will use the productivity valuation field to categorize the acreage as either D1 or D2. You do not need to re-code Category D acreage into D1 and D2 for EARS purposes.
- Improvement value (such as barns or houses) should not be reported as Category D2 property, but classified as Category E property. Fences and earth re-shaping (earthen dams, contouring, trenching etc.), however, are considered part of the land and should be included.
- Any size tract may be reported in Category D2. Use is the determining factor in classifying property. If the land is not being used for residential, commercial, industrial or other purposes that would require classification in another property category, and is not

qualified for productivity valuation, then it should be reported in Category D2.

## Category D2 Classification Questions

- Q. A businessman recently purchased a 1,000-acre tract that he is holding to be developed into ranchettes. The tract is not qualified for productivity valuation and has not yet been subdivided or developed in any way. How should the 1,000 acre tract be classified?**
- A. The 1,000 acre tract should be classified in Category D2 since it is not qualified for productivity valuation and does not fit into any other property category.

## CATEGORY E

### Real Property: Farm and Ranch Improvements

#### Which Properties are Classified in Category E?

Improvements associated with land reported as Category D property should be reported as Category E. These improvements include all houses, barns, sheds, silos, garages and other improvements associated with farming or ranching. Land separated from a larger tract for residential purposes should be included as Category E property. Other farm and ranch land should be included in Category D property.

#### Important Notes in Classifying Farm and Ranch Improvements

- The number of acres included for homestead exemption purposes does not change the classification of these types of properties.
- The improvement value of all barns, sheds, silos and other outbuildings is classified as Category E property.
- Land under barns, sheds, silos and other agricultural outbuildings is classified as Category D property.
- The value of the land not receiving productivity appraisal and used for residential purpose is included in Category E.

## Category E Classification Questions

- Q. A farmer lives on a 4.5-acre tract of land on which he grows tomatoes. He claims a half-acre for homestead exemption purposes and receives productivity appraisal on the remaining land. What is the proper classification of the house?**
- A. Despite the fact that the house is located on a tract of land less than five acres, the house is a farm and ranch improvement and should be included as Category E property. The remaining four acres would be subclassified in the proper agricultural land class and put in Category D1.
- Q. A residential improvement lies 15 miles outside the city on 200 acres, eight of which are claimed as homestead. The other 192 acres of land are held for future sale; no farming or ranching activity exists. How should the improvement be classified?**
- A. Despite the location away from the city, the improvement and eight acres claimed as homestead are Category A property. The remaining 192 acres are Category D2 property.

## CATEGORY F1

### Real Property: Commercial

#### Which Properties are Classified in Category F1?

Category F1 property includes land and improvements associated with businesses that sell goods or services to the general public. Some examples of commercial businesses are: wholesale and retail stores, shopping centers, office buildings, restaurants, hotels and motels, gas stations, parking garages and lots, auto dealers, repair shops, finance companies, insurance companies, savings and loan associations, banks, credit unions, clinics, nursing homes, hospitals, marinas, bowling alleys, golf courses and mobile home parks.

Warehouses present a unique classification challenge because of the difficulty some appraisers have experienced in distinguishing between commercial real property (Category F1) and industrial real property (Category F2).

Warehouses that receive goods from more than one manufacturer or distributor to sell wholesale or retail should be

classified as Category F1, commercial real property. The personal property should be classified as Category L1, commercial personal property.

Examples of warehouses that should be classified as Category F1, commercial real property, include:

- A warehouse that buys finished clothing from several manufacturers and sells it to wholesale or retail outlets.
- A warehouse that operates primarily as a retail outlet.

Warehouses that receive goods from only one manufacturer to hold for distribution or that provide storage as part of a manufacturing process should be classified as industrial real property (Category F2.) Industrial warehouses are normally owned by the manufacturer and are usually on or near the site of the manufacturing plant.

Examples of warehouses that should be classified as Category F2, industrial real property, include:

- A warehouse that stores various kinds of cloth, materials and supplies used by a manufacturing plant to manufacture clothing. The warehouse containing these items ensures the efficient operations of the manufacturing business by providing an uninterrupted supply of vital resources.
- A warehouse that only functions to receive the finished clothing from a manufacturing plant as it is manufactured, and then distributes it to wholesale or retail outlets. This warehouse enables the factory to maintain a regular and efficient production schedule by producing clothing even when there is no immediate buyer.

It cannot be overemphasized that personal property associated with either industrial real or commercial real properties should not be categorized as either Category F1 or Category F2, but should instead be categorized as either Category L1 (commercial personal) or Category L2 (industrial personal) property.

#### Important Notes in Classifying Commercial Real Property

- Include both the land and improvement value. The land may be appraised by the CAD and the improvement by an appraisal firm. The total land and improvement value, however, is classified as F1 property.

- Do not include commercial personal property as Category F1 property.

## Category F1 Classification Questions

- Q. A development company owns a 360-unit time-share complex. How should this property be classified?**
- A. This property is operated as a commercial business. The real property value is classified as F1 property. The personal property should be classified as L1.
- Q. One of our citizens owns a business and an adjacent lot. Both the business and lot are used for commercial purposes. Should the appraisal district classify the adjacent lot as a vacant lot under Category C or as commercial real property under Category F1?**
- A. The classification of any property depends on its use. Since the adjacent lot is used in conjunction with a commercial business, it should be classified as Category F1.
- Q. A telephone store is owned and operated as an independent operation by AT&T. The store sells and repairs telephones. How is this property classified?**
- A. Even though a utility company owns this store, it is operated as a commercial business and is not a necessary component of utility operations. Classify the property as F1 property.
- Q. If a motel suite establishment, such as a motor inn, rents by the month, is it classified as Category B property or F1 property?**
- A. The motor inn rents the units on a short-term basis. The property is classified as Category F1 property.
- Q. A discount store chain purchases merchandise from several manufacturers for distribution to their company stores. Should their warehouse be classified as Category F1 property?**
- A. Yes. The warehouse is not part of the manufacturing process. When property is used for storing merchandise purchased from more than one manufacturer, which will be distributed to retail outlets, it should be considered commercial property.

## CATEGORY F2

### Real Property: Industrial

#### Which Properties are Classified in Category F2?

Category F2 properties are the land and improvements of businesses that add value to a product through development, manufacturing, fabrication or processing of that product.

Some examples of industrial businesses are: cotton gins, processing plants, paper mills, steel mills, refineries, warehouse storing for a manufacturing facility, cement plants, chemical plants, canning companies and clothing manufacturers. (See discussion of Category F1, commercial real property, on Page 6 for additional information on properly categorizing warehouses and their contents.)

#### Important Notes in Classifying F2 Industrial Real Property

- Include the value of both the improvements and the land necessary to the industrial operation. The CAD may appraise the land and an appraisal firm may appraise the improvement. The total land and improvement value, however, is classified as F2 property.
- Classify all equipment that would not normally be removed as F2 property improvement value. If removing the equipment would damage the structure to the extent that the cost to repair surpasses the market value of the property removed, the equipment is considered real property.
- Do not include additional tracts of land held by the company if that land is not a part of the manufacturing operation.

#### Category F2 Classification Questions

- Q. A paper company owns a paper mill on a 350-acre tract of land. The mill, employee and visitor parking lot, warehouse, employee recreation area and storage yard are included on 50 acres of land. Is the 350 acres of land classified as F2 property?**
- A. No. Only the 50 acres associated with the mill and mill facilities is classified as Category F2. The remaining 300 acres of vacant land should be classified as Category D property.

**Q. Is the equipment of a gas processing plant considered F2 property?**

A. Classify the land, buildings and value of fixed equipment as Category F2 property. Include all inventories and other equipment value of the plant as L2 property.

**Q. A manufacturing facility stores inventory in a location across town. The manufacturing facility has insufficient storage area to warehouse inventory on-site. Should the warehouse be classified as Category F2 property?**

A. Yes. The property is used as part of the manufacturing process and warehouses excess inventory that cannot be stored on-site. It should be classified as Category F2 property.

**Q. A grain elevator has storage and processing facilities for grain. Is this Category F2 property?**

A. Yes, the processing and storage are a necessary part of the operation and add value to the product. The property should be included as Category F2 property.

**Q. An electric generation plant is built in your district, what category do you put the plant in?**

A. You would put the plant in Category F2: Industrial.

## CATEGORY G

### Oil, Gas and Other Minerals

#### Which Properties are Classified in Category G?

Category G property includes the value of all mineral deposits still in the ground and not yet produced. In addition, all equipment used to produce and prepare the minerals for sale is also considered Category G property.

#### Important Notes in Classifying Category G Mineral Properties

- The surface land value is not included as Category G property.
- The value of Category G property is the value of mineral rights and mineral deposits.

- Category G property includes value for both energy minerals, including oil, gas, lignite and uranium, and non-fuel minerals such as sand, gravel, limestone, granite, talc and sulfur.

### Category G Classification Questions

**Q. An oil company has a mineral lease on 8,000 acres of an existing 20,000-acre ranch. Oil has been discovered on the leased land. What values are classified as Category G property?**

A. The value of the producing and nonproducing reserves and the equipment used to bring the oil to the surface.

**Q. An oil company has a storage tank, which is fed by incoming lines from the oil field. How is this property classified?**

A. Since the equipment is not used to bring oil to the surface, the property and storage tank are classified as L2.

**Q. A crushed stone company owns the mineral rights to a large tract of land. The company has been extracting limestone for several years; it appears reserves are sufficient to meet the company's needs for more than 25 years at current production levels. How should the property be classified?**

A. The value of the mineral rights is classified as Category G property. The surface value is classified as Category D property.

## CATEGORY H

### Tangible Personal Property: Non-business Vehicles

#### What is Classified in Category H?

Category H property includes automobiles, motorcycles and light trucks not used for the production of income and subject to taxation under Section 11.14, Property Tax Code. Non-income-producing vehicles are exempt from taxation, unless the governing body of a taxing unit has taken an official action to tax them. Appraisal districts are not required to list or appraise exempt vehicles. If exempt non-income-producing vehicles are on the tax roll they should be coded X.

## Important Notes in Classifying Non-Income-Producing Vehicles

- Includes non-income-producing vehicles only. Income-producing vehicles are classified in Category L1.

### Category H Classification Questions

- Q. A fast food restaurant has a delivery fleet of five small vans. Should the value of these vans be included as Category H property?**
- A. No. These vans are used for the production of income. They are business inventory, Category L1 property.
- Q. An individual owns a sedan and a station wagon subject to taxation under Section 11.14, Property Tax Code. Are these vehicles Category H property?**
- A. Yes. They are classified as Category H property since they are privately-owned vehicles and not used for income-producing purposes.

## CATEGORY J

### Real and Personal Property: Utilities

#### Which Properties are Classified in Category J?

Category J property includes the real and personal property of utility companies and co-ops. Subcategories of utilities are:

- J1 Water Systems
- J2 Gas Distribution Systems
- J3 Electric Companies and Electric Co-ops
- J4 Telephone Companies and Telephone Co-ops
- J5 Railroads
- J6 Pipelines
- J7 Cable Companies
- J8 Other

## Important Notes in Classifying Utility Properties

- Utility companies are typically subject to state, local and federal regulation of their rates and services; however, recent events have allowed for some deregulation.
- Usually, utility companies supply continuous or repeated services through permanent physical connections between a plant and a consumer. As a result of restructuring of the electric generation industry in Texas, the electric generation plants should now be classified in Categories F2 and L2. Transmission and distribution facilities and equipment will continue to be Category J.
- Property owned by a utility company, but not an operating component of utility the company, is not classified as Category J property. The use of the property determines the classification.
- Construction work in progress or a plant held for future use in the operation of the utility company are classified as Category J property.
- Railroad rolling stock, which is only taxed by counties, is classified as Category J.

### Category J Classification Questions

- Q. A large telephone company owns an office building that houses its regional staff. In addition, it owns a warehouse, garage and storage yard that houses trucks, equipment and inventory. How is this property classified?**
- A. All of this property is necessary to the operation of the telephone company, so it is all Category J property.
- Q. A railroad owns 10 acres of right-of-way through a 100-acre ranch under a different ownership. What is considered Category J property?**
- A. Only the 10 acres owned by the utility.
- Q. An oil company owns 15 drilling rigs. Is this Category J property?**
- A. No. This property is classified as Category L2 property.

**Q. An electric generation plant is located in your county and the company also owns the electric transmission lines that run from the plant. How is the property classified?**

A. The electric generation plant is classified as F2 and the electric transmission lines are classified as J.

## CATEGORY L1

### Personal Property: Commercial

#### Which Properties are Classified in Category L1?

Category L1 properties include the personal property of businesses that sell goods or services to the public. (See discussion of Category F1, commercial real property, on Page 6 for additional information on properly categorizing warehouses and their contents.)

Some examples of commercial personal property follow:

- Clothing store property classified as L1 property includes all merchandise inventory, supplies, computers, cash registers, other moveable business equipment, and furniture and fixtures in the store.
- Office building property classified as L1 property includes all furniture, fixtures, equipment, supplies and inventory located in the office building.

#### Important Notes in Classifying Commercial Personal Property

- Include all personal property of a commercial business.
- Do not include the real property of a business.
- Include commercial vehicles used for business purposes.
- Include the value of boats, aircraft and other recreational vehicles owned by a commercial business.

#### Category L1 Classification Questions

**Q. A local developer owns a Lear jet that is used for business trips. How is this aircraft classified?**

A. The aircraft is considered a part of the business operation. Classify it as Category L1 property.

**Q. An oil company owns a number of drilling rigs. How is this personal property classified?**

A. Drilling rigs add value to the product (oil and gas) by developing the lease and making the product available for recovery. These properties are classified as Category L2 property.

**Q. Is a distribution warehouse inventory for a manufacturer that distributes its goods to wholesalers classified as Category L1 property?**

A. No. It is considered a part of the manufacturing operation and classified as Category L2.

## CATEGORY L2

### Personal Property: Industrial (Manufacturing)

#### Which Properties are Classified in Category L2?

Category L2 properties include the personal property of businesses that add value to a product through development, manufacture, processing or storage of that product. (See discussion of Category F1, commercial real property, on Page 6 for additional information on properly categorizing warehouses and their contents.)

Some examples of Category L2 industrial personal property are:

- Manufacturing machinery and equipment, computers, barges, commercial watercraft, trucks, heavy equipment, inventory stock, drilling rigs, portable tools, furniture and fixtures, raw materials, goods in process and finished goods.

#### Important Notes in Classifying Industrial Personal Property

- All personal property used in the production of a product is classified as Category L2 property.
- Automobiles, trucks, aircraft, watercraft, recreational vehicles and heavy equipment owned by an industrial firm are classified as Category L2 property.

- Do not classify the real property of an industrial firm as Category L2 property; it should be classified as Category F2 property.

## Category L2 Classification Questions

- Q. Is the personal property inventory of a well service company classified as Category L2 property?**
- A. No. Personal property inventory, supplies, equipment, furniture and fixtures of a commercial business are classified as Category L1 property.
- Q. An oil company has a storage yard where equipment that services a drilling operation in the area is stored. How are these properties classified?**
- A. The land and any improvements are classified as Category F2 property. The equipment is classified as Category L2 property. Do not include this value in Category G.
- Q. Are support facilities such as compressed air, steam and dehumidification in a manufacturer's building considered Category L2 property?**
- A. No. These are classified as Category F2 property since they are an integral part of the building.

## CATEGORY M

### Mobile Homes and Other Tangible Personal Property

#### Which Properties are Classified in Category M?

Category M properties should be classified as either M1 or M2. A mobile home on land owned by someone other than the owner of the mobile home should be classified as M1 property. This is an exception to the current use rule for classifying property. Even though the mobile home is used for residential purposes, it is classified as Category M1 property if the mobile home and land have different owners.

Non-income-producing personal property such as boats, travel trailers and personal aircraft are exempt under Section 11.14, Property Tax Code, unless the governing body of a taxing unit takes an official action to tax non-income-producing personal property.

House Bill 2076, passed during the 77th Texas Legislature, and Texas voters' subsequent passage of House Joint Resolution 44 in November 2001 amended in the Texas Constitution to allow taxing units, other than school districts, to exempt travel trailers. Without action by a governing body to exempt travel trailers, they are taxable. School districts do not have the option to exempt travel trailers.

Travel trailers that are exempt from taxation by official action of the governing body of a taxing unit are totally exempt property and should not be included in any property-use category.

If an appraisal district has taxable non-income-producing boats, travel trailers or personal aircraft on the roll, these items should be classified as M2 property. Travel trailers that are permanent residences are taxable and should be coded in A (if on owned land) or M1 (if on rented land). The law requires the Property Tax Division to treat Category M2 as totally exempt in the property value study.

**Boats, travel trailers and personal aircraft that are used to produce income are taxable and should be classified as Category L1 or L2, depending on whether they are used as part of a commercial business (L1) or an industrial business (L2).** Some appraisal districts are incorrectly classifying income-producing property as M2. This incorrect classification reduces the accuracy of the taxable value estimates sent to the Texas Education Agency. If this type of error occurs, the taxable values will be adjusted appropriately.

#### Important Notes in Classifying Other Personal Property

- Personal property shown as Category M property must be individually owned.
- Properties owned by businesses or listed in the name of a business are not classified in this category.
- Category M properties are owned by individuals and are typically used for residential or recreational purposes and not for generating income.

#### Category M Classification Questions

- Q. An insurance executive uses an airplane owned by his company and listed in the name of his company. Should the aircraft be included as Category M property?**

A. No. This airplane, though it may sometimes be used for pleasure and recreation, is an asset of the company. Therefore, it is considered business personal property and should be classified as Category L1 property.

**Q. A mobile home is located on the owner's land. He also owns a recreational boat and travel trailer subject to taxation. Are these properties Category M properties?**

A. No. Only the boat and travel trailer are classified as Category M property. The mobile home and lot are classified as Category A property since both are owned by the resident and used for residential purposes.

**Q. My district has a mobile home park consisting of eight acres. All the mobile home spaces are leased and a total of 35 mobile homes are located in the park. Which properties are classified as Category M property?**

A. Category M property would include only the mobile homes in the park. The land should be classified as Category F1 property.

## CATEGORY N

### Intangible Personal Property

#### Which properties are classified in Category N?

Properties evidenced by a document are considered intangible and, if subject to taxation, are classified as Category N property. Common examples are the stock values of insurance companies and savings and loan associations.

#### Important Notes in Classifying Intangibles

- Most intangible property is exempt from taxation by law.
- Property with undetermined codes should not be coded as Category N property.

#### Category N Classification Questions

**Q. Our district has a number of undetermined codes. Are these Category N properties?**

A. No. Do not use Category N as a "catch-all" category.

**Q. Since I have no intangible property in my district, do I need a Category N on my tax roll?**

A. No, it is not necessary. However, the self-reports do provide a place to record Category N property value. Reserve Category N for intangible value in the event it is needed in the future.

## CATEGORY O

### Real Property: Residential Inventory

Category O properties are residential real property held as inventory if all of the following apply:

- They are under the same ownership.
- They are contiguous or located in the same subdivision or development.
- They are held for sale in the ordinary course of business.
- They are subject to zoning restrictions limiting them to residential use. If not subject to zoning, they are subject to enforceable deed restrictions limiting them to residential use, or their highest and best use is as residential property.
- They have never been occupied for residential purposes.
- They are not presently leased or producing income.
- The property is business inventory.

#### Important Notes in Classifying Residential Real Property Inventory

- All of the above criteria must be met for the property to be classified as Category O property.
- The land and improvement value are both classified as Category O property if the criteria are met.
- The property is appraised as a unit.

#### Category O Classification Questions

**Q. A 300-acre tract of land is subdivided into one-acre tracts. One house was built on a lot as a commercial**



**venture. The house has never been occupied, nor any of the lots developed. They are for sale in the normal course of business. Are these Category O properties?**

- A. Yes. They are owned by the same person, contiguous and have never been occupied. They are appraised as a unit and classified as Category O properties.
- Q. A local developer built 35 homes in a subdivision. Ten have sold and are occupied. The others are for sale but remain vacant. Which properties are classified as Category O property?**
- A. The 25 houses that are vacant are appraised as a unit and classified as Category O properties.

## CATEGORY S

### Special Inventory

Category S accounts include certain personal property of businesses that provide items for sale to the public. These personal property items are appraised based on total annual sales in the prior tax year. Examples of special inventory follow:

#### Sec. 23.121. Dealer's Motor Vehicle Inventory

Dealer's motor vehicle inventory means all motor vehicles held for sale by a dealer.

**"Motor vehicle"** means a towable recreational vehicle or a fully self-propelled vehicle with at least two wheels which has as its primary purpose the transport of a person or persons or property, whether or not the vehicle is intended for use on a public street, road or highway.

#### Sec. 23.1241. Dealer's Heavy Equipment Inventory

Dealer's heavy equipment inventory means all items of heavy equipment that a dealer holds for sale at retail. **"Heavy equipment"** means self-propelled, self-powered or pull-type equipment, including farm equipment or a diesel engine, that weighs at least 3,000 pounds and is intended to be used for agricultural, construction, industrial, maritime, mining or forestry uses.

#### Sec. 23.124. Dealer's Vessel and Outboard Motor Inventory

Dealer's vessel and outboard motor inventory means all vessel and outboard motors held for sale by a dealer. **"Vessel"**

means any watercraft, other than a seaplane on water, used or capable of being used for transportation on water. This does not include vessels of more than 65 feet in length, measured from end to end over the deck, excluding sheer; and canoes, kayaks, punts, rowboats, rubber rafts or other vessels under 14 feet in length when paddled, poled, oared or windblown. Vessel also includes trailers that are treated as vessels if it is designed to carry a vessel and is either a trailer or semitrailer.

**"Outboard"** motor means any self-contained internal combustion propulsion system, excluding fuel supply, that is used to propel a vessel and detachable as a unit from the vessel.

#### Sec. 23.127. Retail Manufactured Housing Inventory

Retail manufactured housing inventory means all manufactured homes that a retailer holds for sale at retail.

A **manufactured home** is a ready built home that is constructed so that the entire living area is contained in a single unit or section at a temporary location for the purpose of selling it and moving it to another location.

## CATEGORY X

### Totally Exempt Property

Totally exempt property must have the qualifications found in Chapter 11 of the Property Tax Code. Some examples of properties that often qualify for a total exemption are listed below:

- School property
- Property owned by religious organizations
- Property owned by the federal, state, county or city government and used for public purposes
- Property owned by charitable organizations
- Cemeteries
- Property owned by youth spiritual, mental and physical development associations
- Income-producing or mineral-interest properties valued at less than \$500
- Low income housing

Businesses operating in a foreign trade zone usually seek tax-exempt status on their inventory (imported goods) through a rendition form.

### **Category X Classification Questions**

**Q. A school district recently purchased a house that it now uses for administrative offices. How should the property be classified?**

A. The property class should be changed from A to X because the property is now owned by the district and used for a public purpose and is, therefore, totally exempt.

**Q. A doctor purchased an old school and converted it into offices. How should the property be classified?**

A. The formerly totally exempt property is now a Category F1 property and is now taxable.



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Texas Comptroller of Public Accounts  
Publication #96-313  
Revised May 2007