

The seal of the Texas Comptroller of Public Accounts is visible in the background. It features a five-pointed star in the center, surrounded by a wreath of olive and oak branches. The words "THE COMPTROLLER OF PUBLIC ACCOUNTS" are inscribed around the perimeter of the seal, and "TEXAS" is at the bottom.

**Glenn Hegar**

Texas Comptroller of Public Accounts

# Texas Property Tax Assistance Property Classification Guide

Reports of Property Value

February 2014

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This manual is published by the Comptroller's office for use by appraisal districts in classifying property for purposes of reporting property value to the Comptroller. The manual is not intended to direct or influence issues of local appraisal, such as whether property is taxable or entitled to special appraisal, and should not be relied upon as such. Additionally, the information provided neither constitutes nor serves as a substitute for legal advice. Questions regarding classification or characterization of property for purposes of local appraisal should, as appropriate or necessary, be directed to an attorney or other appropriate counsel.

# Table of Contents

Purpose of the Property Classification Guide . . . . . 1

A: Real Property: Single-family Residential . . . . . 2

B: Real Property: Multifamily Residential. . . . . 3

C1: Real Property: Vacant Lots and Tracts . . . . . 4

C2: Real Property: Colonia Lots and Land Tracts . . . . . 5

D1: Real Property: Qualified Open-space Land . . . . . 5

D2: Real Property: Farm and Ranch Improvements on Qualified Open-space Land . . . . . 6

E: Real Property: Rural Land, not Qualified for Open-space Appraisal,  
and Residential Improvements . . . . . 7

F1: Real Property: Commercial. . . . . 7

F2: Real Property: Industrial . . . . . 9

G: Real Property: Oil and Gas, Minerals and Other Subsurface Interests . . . . . 10

H1: Tangible Personal Property: Personal Vehicles, Not Used for Business Purposes . . . . . 10

H2: Tangible Personal Property: Goods in Transit . . . . . 11

J: Real and Personal Property: Utilities . . . . . 11

L1: Personal Property: Commercial . . . . . 12

L2: Personal Property: Industrial and Manufacturing . . . . . 13

M: Mobile Homes and Other Tangible Personal Property . . . . . 13

N: Intangible Personal Property . . . . . 14

O: Real Property: Residential Inventory . . . . . 15

S: Special Inventory . . . . . 15

X: Exempt Property . . . . . 16



## Purpose of the Property Classification Guide

This guide is provided to assist appraisal districts in their classification of property for value analysis and use in the biennial Property Value Study (PVS). Electronic Appraisal Roll Submission (EARS), a process of submitting appraisal roll data on electronic media, has improved the accuracy of reporting. Proper use of this classification guide will also improve accuracy.

If you have questions about the categories and data entry, please call the Data Security and Analysis Team (DSAT) of the Property Tax Assistance Division (PTAD) at 800-252-9121 (press 2 and ask for DSAT).

### How are accounts reported in EARS files?

For each taxing entity, EARS files should include only one record for each property. Appraisal districts often have multiple accounts tied to one real property account. This might be the result of a residence homestead designation that applies to more than one urban lot or adjacent acreage. Other accounts may be required because of mortgage loan requirements, platting or other factors. Other property may have multiple accounts for owners of undivided interests or an assemblage of tracts for one large commercial property. The primary accounts are often referred to as parent accounts, or master accounts, parcel tie back accounts or common use accounts. The related accounts can be identified by electronic links or flags to indicate that they are components of the parent account. The EARS record layout allows for two ways to report these parent accounts and their related accounts:

- The EARS file can include only the parent account if it includes all of the required information such as total value, land area, applicable exemptions, etc. for the entire tract, which includes the related accounts ; or
- Separate accounts for all related accounts may exist if they are linked (flagged) to the parent account with a field that identifies the parent account number. PTAD's programs will then combine the values from each portion of the parent account into one record. This combined record will be used in determining category values and for selecting samples used in PTAD's ratio study.

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

PTAD conducts a PVS in each school district at least every other year to estimate school district taxable property value. In conducting the PVS and estimating value, PTAD analyzes property by category. Appraisal district reporting of misclassified local value – value reported in the wrong category – may lead to inaccurate taxable value estimates. The Texas Education Agency (TEA) uses the Comptroller's taxable value estimates in determining state funding for schools. Consequently, misclassification by appraisal districts may impact school funding.

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

Current property use is the primary consideration in determining appropriate property classification. If you have doubts about particular properties, please contact DSAT at the number shown above to ensure consistent reporting.

### Property Classifications

Property classifications include these categories:

- A: Real Property: Single-family Residential
- B: Real Property: Multifamily Residential
- C1: Real Property: Vacant Lots and Land Tracts
- C2: Real Property: Colonia Lots and Land Tracts
- D1: Real Property: Qualified Open-space Land

#### Sub-classifications for Agricultural and Timberland

- Irrigated Cropland
- Dry Land Cropland
- Barren/Wasteland
- Orchards
- Improved Pasture
- Native Pasture
- Temporary Quarantined Land
- Timber at Productivity
- Timberland at 1978 Market Value

- Timberland at Restricted Use
- Transition to Timber
- Wildlife Management
- Other Agricultural Land as defined in Tax Code Section 23.51(2).
- D2: Real Property: Farm and Ranch Improvements on Qualified Open-Space Land
- E: Real Property: Rural Land, not qualified for open-space land appraisal, and Improvements
- F1: Real Property: Commercial
- F2: Real Property: Industrial and Manufacturing
- G1: Real Property: Oil and Gas
- G2: Real Property: Minerals
- G3: Real Property: Other Sub-surface Interests in Land
- H1: Tangible Personal Property: Personal Vehicles, not used for business purposes
- H2: Tangible Personal Property: Goods in Transit
- J: Real and Tangible Personal Property: Utilities
- L1: Personal Property: Commercial
- L2: Personal Property: Industrial and Manufacturing
- M1: Mobile Homes
- M2: Other Tangible Personal Property
- N: Intangible Personal Property Only
- O: Real Property: Residential Inventory
- S: Special Inventory
- X: Totally Exempt Property and subcategories

## 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. Whether the property is located within the city, on one or more platted lots or on acreage in a rural subdivision that does not qualify for agricultural appraisal, all the land associated with the residence must be identified.

Often a residential property consists of more than one tract of land or lot. The most common example is a single-family residence on a platted lot and an adjacent unimproved, platted lot being used by the same owner as their residence homestead. In many of these instances, there are two accounts – one for each lot. Sometimes the improved lot is coded as Category A and the unimproved lot is coded as Category C1. When these instances apply to residential property, the two accounts must be tied together. As discussed above, this can be done by reporting one parent account or by reporting the two separate accounts and linking them by identifying a parent account number. PTAD will combine the two separate accounts as one Category A property.

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

### **Important Notes in Classifying Single-family Residential Property**

- There is no acreage limit for Category A (even though there is a limit for residence homesteads). 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 qualifies 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. The remainder of the land should be classified as Category D1 if it qualifies for open-space designation.

**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 same person. In which categories should they be reported?**

A. When the mobile home and land are owned by the same person, both accounts should be reported as Category A property.

**Q. A single-family residence was included as Category A property. Before Jan. 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. However, duplexes that are owner-occupied and have a residence homestead exemption for the owner's portion are reported in Category A. 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 that are residence homesteads as Category B property. They are classified as Category A property. Non-owner-occupied duplexes should be classified as Category B property. All triplexes and four-plexes should be classified as Category B.
- 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 as residential 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 that have a residence homestead exemption are classified as Category A property. Triplexes and four-plexes and are reported in Category B.

Note: If the owner occupies one of the units in a duplex only and receives a residence homestead for that portion, then all of the property becomes Category A property. If the owner occupies one of the units in a triplex or a four-plex, the property will nevertheless be classified in Category B.

**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.

**Q. How is a multifamily housing project that qualifies for exemption under Tax Code Section 11.1825 classified?**

- A. Since the use of this property is multifamily, it should be classified in Category B whether or not the exemption is for the total value or only a portion of the value.

## CATEGORY C1

### Real Property: Vacant Lots and Tracts

#### Which Properties are Classified in Category C1?

Generally, Category C1 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 C1 property. Category C1 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 C1 property. Again, classification is determined by use. Generally, Category C1 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, and if it qualified for open-space land, it would be listed as Category D1. However, if the land was platted and no longer qualified for agricultural use, the individual sites would be reported in Category E.

**Q. A builder owns one unimproved three-acre parcel on which he intends to build a home for sale. Is this Category C1 property?**

A. If this property qualifies as residential inventory, it would be classified as Category O property; if not, it would be listed as Category C1 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 as something other than Category C1 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 C1 property. Once the residence is constructed, the class should be changed from C1 to Category A.

**Q. If a lot has a partially completed house that is not yet habitable, how is the lot classified?**

A. The lot and the partially completed residence would be classified as Category A because the use is residential.

## CATEGORY C2

### Real Property: Colonia Lots and Land Tracts

Local Government Code Chapter 232 prohibits the sale of certain properties often referred to as colonias. Properties that may not be sold pursuant to Local Government Code Chapter 232 should be reported in Category C2.

## CATEGORY D1

### Real Property: Qualified Open-space Land

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

All acreage qualified for productivity valuation under Texas Constitution, Article VIII, 1-d or 1-d-1, and Tax Code Chapter 23, Subchapters C, D, E and H should be classified in Category D1 on the Report of Property Value.

#### Important Notes in Classifying Category D1 Property

- You must report each subclass of agricultural or timber use properties in EARS and on the Report of Property Value, 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 appraisal district must furnish a complete updated self-report, including the breakdown of the agricultural 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; farm and ranch improvements must be reported as Category D2. However, fences and earth re-shaping (earthen dams, contouring, trenching etc.) are considered part of the land and should be included in Category D1. Farm and ranch improvements, other than residences, should be reported in Category D2. While the land under farm and ranch improvements can qualify as open-space land, the land under residences cannot. Residences and the non-qualifying rural land directly attributed to the residences should be reported in Category E.

- Any size tract may be reported in Category D1. If the land is appraised as open-space land, 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 (cannot qualify as open-space) is classified 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 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 category. The value of the four barns should be classified as Category D2 and the homestead's two acres and residence should be classified as Category E.

## CATEGORY D2

### Real Property: Farm and Ranch Improvements on Qualified Open-space Land

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

Improvements, other than residences, associated with land reported as Category D1 property, should be reported as Category D2. These improvements include all 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 that qualifies for open-space land appraisal should be included in Category D1 property.

### Important Notes in Classifying Category D2 Property

- Farm and ranch improvements, such as barns and other structures, on qualified open-space land should not be reported as Category E property. They are properly classified as Category D2 property.
- Residences and rural land that are not qualified as open-space must be reported as Category E.

### Category D2 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. The house and the half-acre is Category E property. The remaining four acres would be classified as Category D1 and listed according to the category of agricultural use.

**Q. A rancher owns a large cow calf operation on 1,000 acres. Located on the land are a barn and a number of sheds and other structures used in the agricultural operation. The owner provides residences for ranch hands on 5 acres. The land is also leased for hunting, and the owner allows day hunters to rent cabins and rooms in a lodge located on 10 acres. How this property classified?**

A. The 985 acres used for the cow calf operation, including the land under the improvements used in the agricultural operation, are classified in Category D1. The barn, sheds and other structures used in the agricultural operation are classified as Category D2. The 5 acres and residential improvements provided to the ranch hands and the 10 acres and cabins and lodge are classified as Category E.

## CATEGORY E

### Real Property: Rural Land, not Qualified for Open-space Appraisal, and Residential Improvements

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

Only rural land that is not qualified for productivity valuation and the improvements, including residential, on that land should be reported as Category E.

#### Important Notes:

- Any size tract may be reported in Category E. Use is the determining factor in classifying property. If the land is not used as residential inventory, commercial, industrial or other purposes that would require classification in another property category, and the land does not qualify as open-space land for productivity appraisal, then it should be reported in Category E.
- 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 on qualified land is classified as Category D2 property.
- Land under barns, sheds, silos and other agricultural outbuildings is classified as Category D1 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 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 E since it is not qualified for open-space land appraisal and does not fit into any other property category.

**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. The entire acreage and the residential improvement would be classified as Category E because none of the acreage qualifies as open-space land.

## 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). The primary consideration is whether the warehouse is used as a part of the manufacturing process.

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 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 property) or Category L2 (industrial and manufacturing 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 condominium complex. How should this property be classified?**

A. This property is operated as a commercial business. The real property value is classified as Category F1 property. The personal property should be classified as Category 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 Category 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, 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 E property if it does not qualify for open-space land appraisal.
- 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 Category 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, in what category do you put the plant?**
- A. The property should be classified as Category F2.

## CATEGORY G

### Real Property: Oil and Gas, Minerals and Other Subsurface Interests

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

Category G includes the non-exempt value of oil and gas, other minerals and certain interests in subsurface land. Mines, quarries, limestone, sand, caliche, gravel and other substances that are part of the land are not minerals, but are classified in Category G, as subsurface interests in land. In addition, equipment used to produce products is considered Category G property and should be reported in the applicable sub-category.

Tax Code Section 11.146 states:

- (a) “A person is entitled to an exemption from taxation of a mineral interest the person owns if the interest has a taxable value of less than \$500.”
- (b) “The exemption provided by Subsection (a) applies to each separate taxing unit in which a person owns a mineral interest and, for the purposes of Subsection (a), all mineral interests in each taxing unit are aggregated to determine value.”

These exempt properties should be reported in Category XC (see page 16).

Oil and gas interests should be reported as Category G1 property. Other minerals should be reported as Category G2 property. Subsurface interests in land should be reported as Category G3.

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

- The surface land value is not included as Category G property.
- The value of Category G property includes producing minerals and non-producing minerals unless they are exempt based on Tax Code Section 11.146.

#### *Which Properties are Classified in Category G1?*

Oil and gas interests should be reported as Category G1 property.

#### *Which Properties are Classified in Category G2?*

Minerals (not oil and gas), such as uranium, lignite and other substances defined as minerals, should be reported as Category G2 property.

#### *Which Properties are Classified in Category G3?*

Interests in subsurface land, such as limestone, sand, caliche, gravel and other substances that are not defined as minerals, as well as real property defined as mines and quarries, should be reported as Category G3.

#### *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 non-exempt producing and nonproducing oil and gas reserves should be reported as Category G1.

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

A. The property and storage tank are classified as Category L2.

## CATEGORY H1

### Tangible Personal Property: Personal Vehicles, Not Used for Business Purposes

#### *What is Classified in Category H1?*

Category H1 property includes automobiles, motorcycles and light trucks not used for the production of income and subject to taxation under Tax Code Section 11.14. 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 non-income-producing

vehicles are on the appraisal roll as exempt property, they must be coded as Category XV.

### **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 and are Category L1 property.

**Q. An individual owns a sedan and a station wagon subject to local option taxation under Tax Code Section 11.14. Are these vehicles Category H1 property?**

A. Yes. They are classified as Category H1 property since they are privately-owned vehicles and not used for income-producing purposes.

## **CATEGORY H2**

### **Tangible Personal Property: Goods in Transit**

#### **What is Classified in Category H2?**

Category H2 property includes personal property stored under a contract of bailment by a public warehouse operator and identified according to the provisions of Tax Code Section 11.253. While goods in transit are exempt under law, the provisions allow local taxing entities to elect to tax these properties. The value of these goods before the exemption amounts are applied is reported in Category H2.

## **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. Usually, utility companies supply continuous or repeated services through permanent physical connections between a plant and a consumer.

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**

- As a result of restructuring of the electric generation industry in Texas and the separation of businesses owning generation facilities from businesses owning electric transmission and distribution utilities, most electric generation plants and equipment should be classified in Categories F2 and L2. Transmission and distribution facilities and equipment will continue to be Category J. Generation facilities and electric utility companies serving Texas but outside the Electric Reliability Council of Texas operating area should be classified as Category J.
- Property owned by a utility company, but not an operating component of the company, is not classified as Category J property. The use of the property determines the classification.
- Construction work in progress to be use in the operation of the utility company is classified as Category J property.
- Railroad rolling stock used in the operation of a railroad is classified as Category J. Rail cars owned and operated by other entities are personal property and classified as L1 or L2 depending on use.

### 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 of right-of-way owned by the utility.

**Q. An oil company that owns a pipeline also owns 15 drilling rigs. Are the drilling rigs Category J property?**

A. No. Property classification is based on use. Drilling rigs are classified as Category L2 property.

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

A. The electric generation plant is classified as Category F2 and the electric transmission lines are classified as Category J. There are exemptions as mentioned above.

## 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, for additional information on properly categorizing warehouses and their contents.) Any income producing tangible personal property that has a value of less than \$500 should be reported in Category XB for exempt property (Tax Code Section 11.145).

Some examples of commercial personal property are:

- Merchandise inventory, supplies, computers, cash registers, other moveable business equipment, furniture and fixtures in the store.
- 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 vehicles used for income-producing 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, as described below, and are not Category L1.

**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 and 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, manufacturing, processing or storage of that product. (See discussion of Category F1, commercial real property, 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 Category M1 or Category M2. A mobile home on land owned by someone other than the owner of the mobile home should be classified as Category 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. Mobile homes on land owned by the same owner should be reported as one account and classified as category A or E depending on location.

Non-income-producing personal property includes boats, travel trailers and personal aircraft and is exempt under Tax Code Section 11.14, unless the governing body of a taxing unit takes an official action to tax non-income-producing personal property. If this property is exempt, it should be classified under Category XV.

If an appraisal district has taxable non-income-producing boats, travel trailers or personal aircraft on the appraisal roll, these items should be classified as M2 property. Travel trailers that are structures as defined by Tax Code Section 11.14(b) are taxable and should be coded in Category A or E (if on owned land) or Category M1 (if on rented land). The law requires PTAD to treat Category M2 as totally exempt in the PVS.

Boats, travel trailers and personal aircraft that are used to produce income are taxable and should be classified as Category L1 or Category L2, depending on whether they are used as part of a commercial business (L1) or an industrial business (L2). Some appraisal districts incorrectly classify income-producing property as Category M2. This incorrect classification reduces the accuracy of the taxable value estimates sent to TEA. If this type of error is identified, 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. Only the boat and travel trailer are classified as Category M property. The mobile home and lot are classified as Category A or E 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 M1 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 defined as intangible pursuant to Tax Code Section 1.04(6) 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 pursuant to Tax Code Section 11.02.
- 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, self-reports do provide a place to record Category N property value. Reserve Category N for intangible personal property if 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. Special inventory and their applicable Tax Code provisions are defined as follows:

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

Dealer's motor vehicle inventory means all motor vehicles held for sale by a dealer. A motor vehicle is defined as 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 items of heavy equipment that a dealer holds for sale or lease. This equipment includes self-propelled, self-powered or pull-type equipment, including farm equipment or a diesel engine, that weighs at least 1,500 pounds and is intended to be used for agricultural, construction, industrial, maritime, mining or forestry uses. This type of equipment must be held by a dealer as defined by law and must meet other requirements of law. Advice from legal counsel is necessary in order to determine whether this equipment qualifies for special appraisal. If it does not qualify, the property should be classified as Category L1.

**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 and includes 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**

**Exempt Property**

Exempt property must have the qualifications found in law, mainly the Tax Code. Owners of certain exempt properties need not file applications: public property (Section 11.11), implements of husbandry (Section 11.161), family supplies (Section 11.15) and farm products (Section 11.16). Other exemptions have local option provisions for taxation (Sections 11.111, 11.14, 11.24, 11.251, 11.252, 11.253 and 11.32). Yet other exemptions are partial, such as residence homestead exemptions and organizations constructing or rehabilitation low income housing. Businesses operating in a foreign trade zone usually seek tax-exempt status for their inventory (imported goods) through renditions.

The following listing is designed to categorize exempt property for reporting purposes only. Residence homestead exemption information is captured in EARS and school district self-reports. The listing below does not include all exemptions and is simply a reporting tool.

- XA 11.111 Public property for housing indigent persons
- XB 11.145 Income Producing Tangible Personal Property valued under \$500
- XC 11.146 Mineral interest property valued under \$500
- XD 11.181 Improving property for housing with volunteer labor
- XE 11.182 Community Housing Development Organizations
- XF 11.183 Assisting ambulatory health care centers
- XG 11.184 Primarily performing charitable functions
- XH 11.185 Developing model colonia subdivisions
- XI 11.19 Youth spiritual, mental and physical development organizations
- XJ 11.21 Private schools
- XL 11.231 Organizations Providing Economic Development Services to Local Community
- XM 11.25 Marine cargo containers
- XN 11.252 Motor vehicles leased for personal use
- XO 11.254 Motor vehicles for income production and personal use
- XP 11.271 Offshore drilling equipment not in use
- XQ 11.29 Intracoastal waterway dredge disposal site
- XR 11.30 Nonprofit water or wastewater corporation
- XS 11.33 Raw cocoa and green coffee held in Harris County
- XT 11.34 Limitation on taxes in certain municipalities
- XU 11.23 Miscellaneous Exemptions
- XV Other Exemptions (including public property, religious organizations, charitable organizations and other property not reported elsewhere)

**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 Category A to Category XV 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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