Glenn Hegar
Texas Comptroller of Public Accounts

Texas Property Tax Assistance Property Classification Guide

Reports of Property Value

January 2022

The Comptroller's office publishes this manual for use by appraisal districts in classifying property for purposes of reporting property value to the Comptroller's office. 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 4

C1: Real Property: Vacant Lots and Tracts 5

C2: Real Property: Colonia Lots and Land Tracts 5

D1: Real Property: Qualified Open-space Land 6

D2: Real Property: Farm and Ranch Improvements on Qualified Open-space Land 7

E: Real Property: Rural Land, not Qualified for Open-space Appraisal, and Residential Improvements 8

F1: Real Property: Commercial 8

F2: Real Property: Industrial 9

G: Real Property: Oil and Gas, Minerals and Other Subsurface Interests 11

H1: Tangible Personal Property: Personal Vehicles, Not Used for Business Purposes 12

H2: Tangible Personal Property: Goods in Transit 12

J: Real and Personal Property: Utilities 13

L1: Personal Property: Commercial 14

L2: Personal Property: Industrial and Manufacturing 14

M: Mobile Homes and Other Tangible Personal Property 15

N: Intangible Personal Property 16

O: Real Property: Residential Inventory 16

S: Special Inventory 17

X: Exempt Property 19

Overview

The Property Tax Assistance Division (PTAD) publishes this guide to assist appraisal districts in their classification of property for use in the biennial school district Property Value Study (PVS).

PTAD conducts a school district PVS in each school district at least every other year to estimate school district taxable property value. Appraisal districts submit appraisal roll data to PTAD through the Electronic Appraisal Roll Submission (EARS) process. Within the EARS file, the appraisal district must classify property by the appropriate category. In conducting the school district PVS and estimating value, PTAD analyzes property by category and produces taxable value estimates for each school district.

The Texas Education Agency (TEA) uses the Comptroller's taxable value estimates in determining state funding for schools. Consequently, misclassification by appraisal districts may produce inaccurate taxable value estimates and impact school funding.

If you have questions about the categories and data entry, contact the Data Analysis Team (DAT) of the Property Tax Assistance Division (PTAD) at 800-252-9121 (press 1).

How are accounts reported in EARS files?

For each taxing entity, the EARS file includes one record per category for each property. However, appraisal districts often associate multiple accounts with one real property account, referred to as parent accounts, master accounts, parcel tie-back accounts or common use accounts. An appraisal district might use a parent account when:

- A residence homestead designation applies to more than one urban lot or adjacent acreage.
- Required by a mortgage loan.
- A property has multiple owners with undivided interests.

One large commercial property has an assemblage of tracts. the related accounts by electronic links or flags to indicate that they are components of the parent account. The EARS record layout allows two ways to report parent accounts and their related accounts. The appraisal district can report:

- Only the parent account if it includes all the required information, such as total value, land area or applicable exemptions, for the entire tract inclusive of the related accounts.
- All related accounts separately if they are linked together (flagged) by a field that identifies the shared parent account number.

If the appraisal district reports related accounts separately, PTAD will combine the values from each portion of the parent account into one record. PTAD will use this combined record for selecting samples used in the school district PVS.

What Should Be Considered in Determining Property Classification?

Appraisal districts should consider current property use to determine the appropriate property classification. **Exhibit 1** lists the classifications for appraisal districts to use when reporting property to our office. Contact PTAD for assistance if you have doubts about classifying a property.

Exhibit 1
Property Classifications

Category	Property Type
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
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

Category	Property Type
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

What Happens if Property is Misclassified?

Misclassified property leads to inaccurate taxable value estimates. School districts may request a school district PVS audit after certification to rectify errors; however, it may take several months for school funding payments to be adjusted. Appraisal districts should review property classifications annually and make corrections within their systems prior to submitting EARS files. If PTAD identifies misclassified property, it will notify the appraisal district and request that the appraisal district correct its system. If the appraisal district fails to correct the misclassification, PTAD may refer the issue to the Methods and Assistance Program (MAP) team for review during the appraisal district's next MAP review.

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 property is single-family homes on tracts of land or platted lots. They may or may not be within the city limits or close to a city. **Exhibit 2** shows property that should be classified as Category A.

Even a large tract of land should be classified as Category A when its use is residential. The appraisal district should identify all land associated with the residence as residential when the land is primarily used to enhance the enjoyment of the residence. This is true whether the property is located within the city, on one or more platted lots or on acreage in a rural subdivision that does not have the potential to qualify for agricultural appraisal. See the Category E section for additional information on properly classifying rural land, not qualified for productivity valuation, and the residential improvement.

Exhibit 2
Category A Property

Single-family residential homes
Vacant lots attached as part of a homestead
Townhouses
Condominiums
Row houses
Owner-occupied duplexes
Mobile homes located on land owned by the same person

Often a residential property consists of more than one tract of land or lot. The most common example is a residence homestead that consists of a single-family residence on a platted lot and an adjacent unimproved, platted lot used by the same owner as their residence homestead. An appraisal district might establish one account for each lot and classify the improved lot as Category A and the unimproved lot as Category C1. When residential property consists of more than one lot, the appraisal district must associate the two accounts when reporting to PTAD. As discussed above, this can be done by reporting one parent account with all information or by reporting the two related accounts and linking them by identifying a parent account number. PTAD will combine the two separate accounts as one Category A.

Important Notes in Classifying Single-family Residential Property

- Even though the Tax Code provides an acreage limit for residence homesteads, there is no acreage limit for Category A property. Property use is the primary determining factor in single-family residential property; however, single-family residential property on land that is eligible to qualify for agricultural use due to productivity should be classified as Category E.
- Appraisal districts should classify all non-farm or ranch single-family residential property as 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, appraisal districts should classify it as Category O property.
- All Category A improvements will be on land that is also classified as Category A.
- Category A does not include improvements located on land classified as Category D1 or E.

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 I classify this house?

A. If the use of the land and house is residential, you should classify the property as Category A, unless it qualifies as residential inventory. If the residence has never been occupied, it qualifies as residential inventory and you should classify it as Category O. If the current and primary use of the subdivision is to put residential houses on each platted tract, you should classify it as Category A once it is occupied because a platted subdivision will no longer qualify for agricultural use.

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 in Category A?

A. No. The fact that most of the land in this example is not included on his homestead exemption indicates that the primary use is not residential. You should classify the house and three acres designated for residential use as **Category E**. You should classify the remainder of the land as Category D1 if it qualifies for open-space designation.

Q. A property owner owns a house but does not, however, own the land. Is this Category A?

A. Yes. This is Category A.

Q. A mobile home and land are listed separately but are owned by the same person. In which categories should I report the properties?

A. When the mobile home and land are owned by the same person, the appraisal district should report both accounts as Category A.

Q. A single-family residence was included as Category A. Before Jan. 1, the improvements were destroyed. How should I classify the property?

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. You should classify the lot as Category C.

Q. One of our citizens owns a home and an adjacent lot. Both the home and lot are used as a residence. 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. If the vacant lot is a combined account and used as primarily an extension of the residence, the appraisal district should classify the lot as Category A. If it is a separate account and a vacant lot, the appraisal district should classify it as Category C.

CATEGORY B

Real Property: Multifamily Residential

Which Properties are Classified in Category B?

Category B property is 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. **Exhibit 3** shows property classified as Category B.

Exhibit 3
Category B Property

Apartment complexes
Duplexes, not owner-occupied
Triplexes
Fourplexes
Apartments above street-level stores, if listed separately

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 property with hotels and motels, even when their occupancy turnover rate is high. Hotels and motels are commercial real property (Category F1) and never classified as Category B.
- Do not classify owner-occupied duplexes that are residence homesteads as Category B. Classify them as Category A.
- Classify non-owner-occupied duplexes as Category B.
- Classify all triplexes and fourplexes as Category B, regardless of whether the property owner occupies a unit.
- Do not classify condominiums or townhomes as Category B. They are Category A.
- If the property is owned by a developer or builder, has never been occupied and meets the other tests as residential property, classify it as Category O.
- Apartment complexes may also include retail and/or office space. If this is a predominantly mixed used property, classify accordingly. If the predominate property use is multifamily with a small retail and/or office space, classify the property Category B. If the entire first floor of an apartment building is retail and/or office space, split out the retail and/or office area as Category F.

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 I classify the duplex?

A. You should classify an owner-occupied duplex with a residence homestead exemption as Category A.

Note: If the owner occupies one of the units in a triplex or a fourplex, classify the property as Category B. Owner-occupancy does not change the classification for triplexes and fourplexes.

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 I classify this property?

A. The predominant use by value of this building is multifamily residences. You should classify it as Category B.

Q. Are hotels and motels included as Category B

A. No. Hotels and motels are not considered multifamily residences. Appraisal districts must classify hotel and motel real property as Category F1 and the personal property as Category L1.

Q. How do I classify a multifamily housing project that qualifies for exemption under Tax Code Section 11.1825?

A. Because the use of this property is multifamily, you should classify the property in Category B whether 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 property is small vacant tracts of land that are typically most suited for use as a building site and do not have the potential to qualify for agricultural use. 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.

Category C1 property is 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 that appraisal district should classify it 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 appraisal district should classify the lot as Category C1. Again, classification is determined by use, and generally Category C1 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 single-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. Should I classify these tracts as vacant lots?

A. No. In this example, the primary use of the land is agricultural, and if it qualified as open-space land, you should classify it as Category D1. However, if the land is developed and no longer qualifies for agricultural use, but still has the potential, you should classify the individual sites as 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?

A. If this property qualifies as residential inventory, classify it as Category O property; if not, classify it as Category C1.

Q. An individual purchased a building site in anticipation of constructing a residence. The site has utilities, curbs, gutters, sidewalks and a street entrance. Should I classify it as something other than Category C1?

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 until the residence is constructed; then the class changes from Category C1 to Category A.

Q. If a lot has a partially completed house that is not yet habitable, how should I classify the lot?

A. Because the use is residential, classify the lot and the partially completed residence as Category A.

CATEGORY C2

Real Property: Colonia Lots and Land Tracts

Which Properties are Classified in Category C2?

Category C2 is limited to colonia lots and land tracts. Colonia lots are housing developments along the border region that lack basic services such as drinking water, sewage treatment and paved roads. Local Government Code Chapter 22 prohibits selling them.

PTAD only accepts Category C2 records from counties authorized to have colonias within their borders, according to the Border Colonia Geographic Database maintained by the Office of the Attorney General.

Important Notes in Classifying Colonia Lots

- Some appraisal districts use internal category divisions such as C1, C2 and C3 to classify properties for appraisal district purposes. Appraisal districts should update records to reflect a valid PTAD classification prior to submitting EARS.
- To confirm whether your county may have colonias, visit the Border Colonia Geographic Database, maintained by the Office of the Attorney General at https://www.texasattorneygeneral.gov/divisions/colonias-database.
- Vacant lots have no minimum or maximum size requirement.

Category C2 Classification Questions

Q. There is a small vacant tract of land that recently sold and is awaiting development. Should I classify it as a colonia vacant lot?

A. No. The vacant lot is not classified as a colonia because colonias are prohibited from sale. Most likely, you should classify this as Category C1.

CATEGORY D1

Real Property: Qualified Open-space Land

Which Properties are Classified In Category D1?

Category D1 includes 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. **Exhibit 4** gives the subclassifications for agricultural and timberland.

Exhibit 4
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)

Important Notes in Classifying Qualified Open-space Land

- Appraisal districts must report each subclass of agricultural or timber use property in EARS, and the land class should be a part of the appraisal record of the property on the appraisal district's records system.
- Category D1 does not include the improvement value for barns or houses on agricultural land; however, fences and earth reshaping, such as earthen dams, contouring and trenching, are considered part of the land and reported in Category D1. Appraisal districts should classify farm and ranch improvements, other than residences, as Category D2.
- While the land under farm and ranch improvements can qualify as open-space land, the land under residences cannot. Appraisal districts should classify residences and the non-qualifying rural land directly attributed to the residences as Category E.
- Appraisal districts may report any size tract in Category D1. If the land is appraised as open-space land, appraisal districts should classify it as 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 should I classify as Category D1?

A. Classify the acreage receiving productivity appraisal as Category D1. The residence and land that is a part of the homestead do not fit within Category D1. You should classify these as Category E.

Q. A farmer owns three tracts of land. The first is a 10-acre tract with four storage barns. The second is a 225-acre wheat and cotton farm. Both the first and second tracts qualify for productivity valuation. The third tract is two acres on which the farmer has his primary residence homestead. Which properties do I classify as Category D1?

A. Both the 225-acre wheat and cotton farm and the 10-acre tract fit within Category D1. Report the subclass for each agricultural use category. You should classify the value of the four barns as Category D2 and the homestead's two acres and residence as Category E.

CATEGORY D2

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

Which Properties are Classified In Category D2?

Category D2 includes improvements, other than residences, associated with land reported as Category D1. These improvements include all barns, sheds, silos, garages and other improvements associated with farming or ranching.

Appraisal districts should classify property by its predominant use, and therefore, land separated from a larger tract for residential purposes is classified as Category E. Classify other farm and ranch land that qualifies for open-space land appraisal as Category D1.

Important Notes in Classifying Farm and Ranch Improvements on Qualified Open-space Land

- Category D2 includes farm and ranch improvements, such as barns and other structures, on qualified open-space land. Do not classify these improvements as Category E.
- Residences and rural land that are not qualified as open-space do not fit within Category D2, and appraisal districts should classify 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 are Category E. You would not include a residence in Category D2. Classify the remaining four acres as Category D1 and indicate the appropriate subclass of agricultural use.

Q. A rancher owns 1,000 acres. He runs a large cow calf operation on the land and uses a barn, several sheds and other structures located on the land for the agricultural operation. The owner provides residences for ranch hands on five 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 should I classify this property?

A. Classify the 985 acres used for the cow calf operation, including the land under the improvements used in the agricultural operation, in Category D1. Classify the improvements used in the agricultural operation, such as the barn, shed and other structures, as Category D2. Classify both the five acres and residential improvements provided to the ranch hands and the 10 acres and cabins and lodge 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?

Category E includes only rural land that is not qualified for productivity valuation and the improvements on that land, including residences. Appraisal districts may report any size tract in Category E.

As always, primary use is the determining factor in classifying property. If the land is used as residential inventory, commercial, industrial or other purposes, classify the property by that use. Likewise, if the land qualifies as open-space land for productivity appraisal, the use determines its classification as Category D1. If the land does not fit in these other categories, report it in Category E.

Important Notes in Classifying Rural Land:

- The number of acres included for homestead exemption purposes does not change the classification of these properties.
- Category E does not include the improvement value of all barns, sheds, silos and other outbuildings on qualified land. Classify this type of property as Category D2.
- Category E does not include land under barns, sheds, silos and other agricultural outbuildings. Classify this type of property as Category D1.
- Classify the value of the land not receiving productivity appraisal and used for residential purpose as 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 I classify the 1,000-acre tract?

A. Classify the 1,000-acre tract as Category E as 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 on the land. How should I classify the improvement?

A. Classify the entire acreage and the residential improvement 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 public. Businesses considered commercial businesses include: 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. The appraisal district may classify some warehouses as commercial real property (Category F1) and others as industrial real property (Category F2).

First, consider whether the warehouse is used as a part of the manufacturing process. Review the location, ownership and goods located within the warehouse to determine its use.

Classify a warehouse that receives goods from more than one manufacturer or distributor to sell wholesale or retail is used for commercial purposes as commercial real property in Category F1, but classify the personal property located within the warehouse as commercial personal property in Category L1.

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.

Do not classify warehouses used in connection with a manufacturing process in Category F1. These industrial warehouses are usually on or near the site of the manufacturing plant and normally owned by the manufacturer. If a warehouse provides storage as part of a manufacturing process, classify it as industrial real property (Category F2).

See discussion in Category F2 for more information on properly classifying industrial warehouses and their contents.

Do not classify personal property associated with commercial real property in Category F1. Likewise, do not classify industrial property in Category F1. Other classifications exist for these properties.

Important Notes in Classifying Commercial Real Property

- Include both the land and improvement value. The land may be appraised by the appraisal district and the improvement by an appraisal firm. Classify the total land and improvement value as Category F1.
- Do not include commercial personal property as Category F1.

Category F1 Classification Questions

Q. A development company owns a 360-unit time-share condominium complex. How should I classify this property?

A. Because this property is operated as a commercial business, classify the real property value as Category F1 and the personal property as Category L1.

Q. One of our citizens owns a business and an adjacent lot that are both 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. Because the adjacent lot is used in conjunction with a commercial business, classify it 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.

Q. If a motel suite establishment, such as a motor inn, rents by the month, is it classified as Category B or Category F1?

A. Because the motor inn rents the units on a short-term basis, classify it as Category F1.

Q. A discount store chain purchases merchandise from several manufacturers for distribution to its company stores. Should its warehouse be classified as Category F1?

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 is considered commercial property.

CATEGORY F2

Real Property: Industrial

Which Properties are Classified in Category F2?

Category F2 property is the land and improvements used by businesses that add value to a product through development, manufacturing, fabrication or processing of that product.

Business considered industrial businesses include cotton gins, processing plants, paper mills, steel mills, refineries, warehouses storing for a manufacturing facility, cement plants, chemical plants, canning companies and clothing manufacturers.

As discussed for Category F1, warehouses present a unique classification challenge. If the warehouse is used as a part of the manufacturing process, the appraisal district should classify it as an industrial warehouse in Category F2.

For example, an appraisal district should classify a warehouse that stores various kinds of cloth, materials and supplies used by a manufacturing plant to manufacture clothing in Category F2. The warehouse containing these items ensures the efficient operations of the manufacturing business by providing an uninterrupted supply of vital resources. Classify the personal property located within the industrial warehouse as industrial personal property in Category L2.

Also classify 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, as Category F2. This warehouse enables the factory to maintain a regular and efficient production schedule by producing clothing even when there is no immediate buyer.

See discussion of commercial real property in Category F1 for additional information on properly categorizing warehouses and their contents

Important Notes in Classifying Industrial Real Property

- Include the value of both the improvements and the land necessary to the industrial operation. The appraisal district may appraise the land, and an appraisal firm may appraise the improvement. The total land and improvement value, however, is classified as Category F2.
- Classify all equipment that would not normally be removed as Category 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 on 50 acres of land. Should I classify the 350 acres of land as Category F2?

A. No. Only classify the 50 acres associated with the mill and mill facilities as Category F2. Classify the remaining 300 acres of vacant land as Category E if it does not qualify for open-space land appraisal.

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

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

Q. A manufacturing facility stores inventory in a location across town. The manufacturing facility does not have enough storage area to warehouse inventory on-site. Should I classify the warehouse as Category F2?

A. Yes. Because the property is used as part of the manufacturing process and warehouses excess inventory that cannot be stored on-site, classify the warehouse as Category F2.

Q. A grain elevator has storage and processing facilities for grain. Should I classify this as Category F2?

A. Yes. The processing and storage facilities are a necessary part of the operation and add value to the product. Classify the property as Category F2.

Q. How should I classify wind turbines operating on a wind farm?

A. A wind farm, also known as a wind power plant, uses wind turbines to generate electricity. These large turbines are affixed to the land and should be classified as Category F2. If owned and operated by an electric utility company serving Texas but outside the Electric Reliability Council of Texas (ERCOT) operating area, the wind farm should be classified as Category J. (See the following question and Category J section for additional information.)

Q. An electric generation plant was just built in the district. In what category should I classify the plant?

A. If the plant is within the operating area of ERCOT, classify the property as Category F2. If the plant is outside the ERCOT operating area, classify the property as Category J.

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 they are classified in Category G as subsurface interests in land.

Category G includes three subcategories:

- Category G1 includes oil and gas interests.
- Category G2 includes minerals other than oil and gas, such as uranium, lignite and other substances defined as minerals.
- Category G3 includes interests in subsurface land, such as limestone, sand, caliche, gravel and other substances that are not defined as minerals. It also includes real property defined as mines and quarries.

Certain mineral interests are exempt from taxation, and appraisal districts should report this property in Category XC. 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."

See the section on Category X for more information on reporting exempt property.

Important Notes in Classifying Oil and Gas, Minerals and Other Subsurface Interests

- Appraisal districts should report equipment fixed to the property that is used to produce products such as oil, gas, lignite, coal and gravel in the applicable subcategory.
- Do not include surface land value as Category G1. Categorize the surface land according to the principal use of the property. For instance, when the surface land is used for agriculture or farming, classify the surface land as Category D1.
- The value of Category G property includes producing minerals and nonproducing minerals unless Tax Code Section 11.146 exempts them.

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. Which values should I classify as Category G?

A. Classify the value of the non-exempt producing and nonproducing oil and gas reserves as Category G1. Tax Code Section 1.04 defines property as any matter or thing capable of private ownership. Real property, in this case the land and the minerals in place, can each have separate owners. Classify the mineral interest in the 8,000 acres as Category G1 and the 20,000 acres of surface land as Category D1.

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

A. Activities that take place after the oil and gas has been produced do not qualify as Category G1. Produced wellhead fluids such as crude oil, natural gas and brine must be processed before sale, transport, reinjection or disposal. This is field processing and involves separating crude oil from solids and water, removing dissolved gas so that it is safe to be transported and stored. Additional cleaning and treating may be necessary before the crude oil may be stored in tanks. At this point, classify the oil and tanks as Category L2 Personal Property Industrial and Manufacturing.

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 to produce 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, classify them as Category XV.

Important Notes in Classifying Non-income-producing Vehicles

- Includes non-income-producing vehicles only. Classify income-producing vehicles as Category L1.

Category H Classification Questions

Q. A fast food restaurant has a delivery fleet of five small vans. Should I classify the value of these vans as Category H1?

A. No. Because the restaurant uses the vans to produce income, classify them as Category L1.

Q. An individual owns a sedan and a station wagon subject to local option taxation under Tax Code Section 11.14. Should I classify these vehicles as Category H1?

A. Yes. Classify the vehicles as Category H1 because they are privately owned vehicles and not used for income-producing purposes.

CATEGORY H2

Tangible Personal Property: Goods in Transit

Which Properties are 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.

This property is commonly called "Goods-in-transit" and is defined as tangible personal property that is:

- Acquired in or imported into this state to be forwarded to another location in this state or outside of this state.
- Stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in this state that are not in any way owned or controlled by the owner of the personal property for the account of the person who acquired or imported the property.
- Transported to another location in this state or outside of this state not later than 175 days after the date the person acquired the property or imported the property into this state.

While goods in transit are exempt under law, the provisions allow local taxing entities to elect to tax these properties. Appraisal districts report the value of these goods before applying the exemption in Category H2.

Important Notes in Classifying Goods in Transit

- Goods-in-transit does not include oil, natural gas, petroleum products, aircraft, dealer's motor vehicle inventory, dealer's vessel and outboard motor inventory, dealer's heavy equipment inventory or retail manufactured housing inventory.

Category H2 Classification Questions

Q. What is the primary difference between Goods-in-transit and freeport goods?

A. Freeport goods are stored on the owner's property and remain in the control of the owner throughout the transportation process.

CATEGORY J

Real and Personal Property: Utilities

Which Properties are Classified in Category J?

Category J 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. Exhibit 5 gives the subcategories for Category J.

Exhibit 5
Utility Subcategories

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
J9	Railroad Rolling Stock (for County Only)

Appraisal districts classify most electric generation plants and equipment as Categories F2 and L2, respectively. This is a result of the restructuring of the electric generation industry in Texas and the separation of businesses owning generation facilities from businesses owning electric transmission and distribution utilities.

Classify generation facilities and electric utility companies serving Texas but outside the ERCOT operating area as Category J.

Classify transmission and distribution facilities and equipment as Category J.

Important Notes in Classifying Utility Properties

- Do not classify property owned by a utility company that is not an operating component of the company as Category J. Classify the property by its predominant use.
- Classify construction work in progress to be used in the operation of the utility company as Category J.
- Classify railroad rolling stock used in the operation of a railroad as Category J9.
- Do not classify rail cars owned and operated by other entities in Category J. They are personal property and classified as L1 or L2 depending on their 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 do I classify this property?

A. Because this property is necessary to the operation of the telephone company, classify all the property as Category J.

Q. A railroad owns 10 acres of right-of-way through a 100-acre ranch under a different ownership. What should I classify as Category J?

A. Only classify the 10 acres of right-of-way owned by the utility as Category J.

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

A. No. Property classification is based on use. Classify drilling rigs as Category L2.

Q. An affiliate company owns the electric transmission lines that run from an electric generation plant located in my county. How should I classify the property?

A. First, determine whether the electric generation plant is located inside or outside the ERCOT operating area. If the plant is inside ERCOT, classify the electric generation plant as Category F2 and classify the electric transmission lines as Category J. If the plant is outside ERCOT, classify both the plant and the transmission lines as Category J.

CATEGORY L1

Personal Property: Commercial

Which Properties are Classified in Category L1?

Category L1 includes the personal property of businesses that sell goods or services to the public.

Commercial personal property includes:

- 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.

Not all personal property stores in a warehouse is considered commercial personal property. See the discussion of Category F1, commercial real property, for additional information on properly classifying warehouses and their contents.

Any income-producing tangible personal property that has a value of less than $2,500 should be reported in Category XB for exempt property (Tax Code Section 11.145).

Important Notes in Classifying Commercial Personal Property

- Classify all personal property of a commercial business as Category L1.
- Do not include the real property of a business in Category L1. Classify commercial real property as Category F1.
- Category L1 includes vehicles used for income-producing business purposes.
- Category L1 includes 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 she uses for business trips. How should I classify this aircraft?

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

Q. An oil company owns several drilling rigs. How should I classify this personal property?

A. Drilling rigs add value to the product (oil and gas) by developing the lease and making the product available for recovery. Classify these properties as Category L2, as described below. Do not classify them as Category L1.

Q. Should I classify distribution warehouse inventory for a manufacturer that distributes its goods to wholesalers as Category L1?

A. No. Because this warehouse inventory is a part of the manufacturing operation, classify it 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 classifying warehouses and their contents.)

Industrial personal property includes 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

- Classify all personal property used in the production of a product as Category L2.
- Classify automobiles, trucks, aircraft, watercraft, recreational vehicles and heavy equipment owned by an industrial firm as Category L2.
- Do not classify the real property of an industrial firm as Category L2; industrial real property belongs in Category F2.

Category L2 Classification Questions

Q. Should I classify the personal property inventory of a well service company as Category L2?

A. No. Classify personal property inventory, supplies, equipment, furniture and fixtures of a commercial business as Category L1.

Q. An oil company has a storage yard where equipment that services a drilling operation in the area is stored. How do I classify these properties?

A. Classify the land and any improvements as Category F2. Classify the equipment as Category L2. Do not include this value in Category G. Category G only applies to the nonexempt value of producing and non-producing minerals and to the equipment used in production.

Q. Are support facilities such as compressed air, steam and dehumidification in a manufacturer's building considered Category L2?

A. No. Classify these as Category F2 because 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 includes mobile homes and other personal property, such as non-income-producing boats, travel trailers and personal aircraft.

Category M includes two subcategories:

- Category M1 includes mobile homes on land owned by someone other than the owner of the mobile home.
- Category M2 includes taxable non-income-producing boats, travel trailers or personal aircraft on the appraisal roll.

Category M1 is an exception to the rule of classifying property by its predominant use. Even if a mobile home is used for residential purposes, classify it as Category M1 if the mobile home and land have different owners. When a mobile home is on land owned by the same owner, report the land and mobile home as one account, classified as Category A or E depending on location. Classify travel trailers that are structures as defined as taxable by Tax Code Section 11.14(b) as Category A or E (if on owned land) or Category M1 (if on rented land).

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. Classify taxable non-income-producing boats, travel trailers or personal aircraft on the appraisal roll as M2 property. If this property is exempt, classify it as Category XV. The law requires PTAD to treat Category M2 as totally exempt in the school district PVS.

Classify boats, travel trailers and personal aircraft that are used to produce income are taxable as Category L1 (used as part of a commercial business) or Category L2 (used as part of an industrial business).

Important Notes in Classifying Other Personal Property

- Personal property shown as Category M must be individually owned. Category M property is owned by individuals and typically used for residential or recreational purposes and not for generating income.
- Do not classify property owned by businesses or listed in the name of a business in this category. The property's current use determines the classification.
- Do not classify income-producing property as Category M2.

Category M Classification Questions

Q. An insurance executive uses an airplane owned by his company and listed in the name of his company. Should I classify the aircraft as Category M?

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

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

A. You should only classify the boat and travel trailer as Category M. Classify the mobile home and lot as Category A or E, as both are owned by the resident and used for residential purposes.

Q. My district has a mobile home park consisting of eight acres and 35 mobile homes. All the mobile home spaces are leased. Which properties do I classify as Category M?

A. Only classify the mobile homes in the park as Category M1. You should classify the land as Category F1.

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. Common examples of intangibles 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.
- Do not classify property with undetermined codes as Category N.

Category N Classification Questions

Q. Our district has several undetermined codes. Do I classify these as Category N?

A. No. Do not use Category N as a "catch-all" category. Contact PTAD if you have a classification question.

Q. I have no intangible property in my district. Do I need a Category N on my tax roll?

A. No. You do not need to create a Category N if you have no value to report. 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

Which Properties are Classified in Category O?

Category O property is residential real property held as business inventory and appraised as a unit. Category O property:

- Is under the same ownership.
- Is contiguous or located in the same subdivision or development.

- Is held for sale in the ordinary course of business.
- Is 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.
- Has never been occupied for residential purposes.
- Is not presently leased or producing income.

Important Notes in Classifying Residential Real Property Inventory

- Only classify property as Category O if all the above criteria are met for the property.
- If the criteria are met, classify both the land and improvement as Category O.

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. Do I classify the property as Category O?

A. Yes. The properties are owned by the same person, contiguous and have never been occupied. The appraisal district appraises the properties as a unit and classifies them as Category O.

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 should I classify as Category O?

A. Classify the 25 houses that are vacant as Category O. Classify the 10 houses that have sold and are residences as Category A.

CATEGORY S

Special Inventory

Which Properties are Classified in Category S?

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 the vehicle is intended for use on a public street, road or highway

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 is detachable as a unit from the vessel.

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, lease or rent in this state during a 12-month period. 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.

Sec. 23.127, Retail Manufactured Housing Inventory.

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

- a HUD-code manufactured home as it would customarily be held by a retailer in the normal course of business in a retail manufactured housing inventory; or
- a mobile home as it would customarily be held by a retailer in the normal course of business in a retail manufactured housing inventory.

Tax Code Section 23.127 refers to the definitions in Occupations Code Section 1201.003 for HUD-code manufactured home and mobile home, as summarized in **Exhibit 6**.

Important Notes in Classifying Special Inventory

- Advice from legal counsel is necessary to determine whether heavy equipment inventory qualifies for special appraisal. If it does not qualify, classify the property as Category L1.

Exhibit 6
Occupations Code Section 1201.003

HUD-Code Manufactured Home	Mobile Home
A structure: • constructed on or after June 15, 1976, according to the rules of the United States Department of Housing and Urban Development; • built on a permanent chassis; • designed for use as a dwelling with or without a permanent foundation when the structure is connected to the required utilities; • transportable in one or more sections; • in the traveling mode, at least eight body feet in width or at least 40 body feet in length or, when erected on site, at least 320 square feet; and • includes the plumbing, heating, air conditioning, and electrical systems of the home. Does not include a recreational vehicle as defined by 24 C.F.R. Section 3282.8(g).	A structure: • constructed before June 15, 1976; • built on a permanent chassis; • designed for use as a dwelling with or without a permanent foundation when the structure is connected to the required utilities; • transportable in one or more sections; • in the traveling mode, at least eight body feet in width or at least 40 body feet in length or, when erected on site, at least 320 square feet; and • includes the plumbing, heating, air conditioning, and electrical systems of the home.

CATEGORY X

Exempt Property

Which Properties are Classified in Category X?

Exempt property must meet legal requirements mainly detailed in the Tax Code. Owners of certain exempt properties need not file exemption applications with the appraisal district to qualify for the exemption: 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). These exemptions are not required by law, and a local taxing unit can elect to provide the exemption.

Some exemptions are partial exemptions, such as residence homestead exemptions and organizations constructing or rehabilitating low-income housing.

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

Exhibit 7 lists classifications designed to classify exempt property for reporting purposes only. It does not include all exemptions and is simply a reporting too. Residence homestead exemption information is captured in EARS and school district self-reports.

Exhibit 7
Exemption Classifications

Classification Code	Tax Code Section	Exemption
XA	11.111	Public property for housing indigent persons
XB	11.145	Income Producing Tangible Personal Property valued under $2,500
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)

Important Notes in Classifying Exempt Property

- Verify that a property cannot be properly classified in one of the other Category X designations before placing a property in Category XV.
- Mineral interest property and tangible business personal property within the allowed exemption amount should be classified as the appropriate X category.

Category X Classification Questions

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

A. Reclassify the property from Category A to Category XV. The property is now owned by the school 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 I classify the property?

A. Reclassify the property from Category XV to Category F1. The formerly totally exempt property is now commercial real property and is taxable.

For more information, visit our website:
comptroller.texas.gov/taxes/property-tax

In compliance with the Americans with Disabilities Act,
this document may be requested in alternative formats
by calling toll free 800-252-5555.

Sign up to receive email updates on the Comptroller topics of your choice at comptroller.texas.gov/subscribe/.

Texas Comptroller of Public Accounts
Publication #96-313
January 2022