

Report Part Title: Agriculture:

Report Title: Use Value Assessments and the Costs to Local Governments

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VT	Forest Land Program	Forest Land/Timber Production	Plot/Land Size Management Plan Other Eligibility Requirements	Yes
WA	Open Space Taxation Act - Farmland	Agricultural/Farmland	Plot/Land Size Income Production Multi-Year Commitment	Yes
WI	Agricultural Use Value Assessment	Agricultural/Farmland	No Criteria	Yes
WV	Valuation of Farmland and Structures	Agricultural/Farmland	Plot/Land Size Income Production	No
WV	Valuation of Timberland and Managed Timberland	Forest Land/Timber Production	Plot/Land Size Management Plan	Yes
WY	Valuation of Agricultural Land	Agricultural/Farmland Forest Land/Timber Production	Plot/Land Size Income Production Other Eligibility Requirements	No

Source: Significant Features of the Property Tax, Lincoln Institute of Land Policy and George Washington Institute of Public Policy, <http://www.lincolnst.edu/subcenters/significant-features-property-tax/>

Agriculture: Program Characteristics

As of 2009, 46 states offered preferential assessment for agricultural land which value property at its current use. Only Michigan, Nebraska, Rhode Island, South Carolina, and the District of Columbia didn't offer such a form of preferential assessment. Nebraska assesses agricultural property at 75% of the assessment of other property. In South Carolina, agricultural land owned by an individual or partnership is valued at 4% of market value and property owned by corporation is valued at 6% of market value. In Michigan and Rhode Island, statute simply explains that the state determines the method for valuing the land. The District of Columbia offers no preferential treatment for agricultural property.

States have established several criteria for eligibility for preferential assessment. The most common criteria include plot or land size, income production, certification, a management plan, prior years' land use, or a multi-year commitment. Thirty-one states have a minimum plot or land size criteria. The minimum size ranges from one acre in New Mexico to 200 acres in Delaware. Most states require at least five acres (Georgia, Idaho, Massachusetts, Maryland, Maine, North Carolina, New Jersey, Utah, Virginia, Washington, West Virginia, and Wyoming), ten acres (Arizona, Illinois, Kentucky, Minnesota, North Dakota, New Hampshire, Ohio, and Pennsylvania), twenty acres (Montana and South Dakota), or 25 acres (Connecticut and Vermont) to qualify. In Indiana the local taxing jurisdiction determines plot or land size criteria. Some states add contingencies to their plot and land size requirements. For example, in Delaware a property can be eligible for preferential assessment if it is below 200 acres as long as it is within a 3-mile radius of an established Agricultural Preservation District, and in North Carolina, property below 5 acres is eligible as long as it annually produces at least 20,000 pounds of aquatic species for commercial sale.

Along with plot and land size requirements income production represents the other most popular eligibility criteria for agricultural property owners seeking a preferential assessment. Twenty-three states make no requirements of the land's income production. Alaska, Iowa, and Texas are the only states with an income production requirement which do not also have a plot or land size requirement.

Most often states demand that property earn a minimum amount of revenue per year to make it eligible for preferential assessment. States with a defined agricultural income from the land vary from at least \$300 plus \$10 per tillable acre in Minnesota up to at least an average of \$10,000 over two years in New York. Other common income floors are \$500 (Massachusetts, New Jersey, West Virginia, and Wyoming), \$1,000 (North Carolina and Idaho), \$1,500 (Montana, Tennessee, and Washington), \$2,000 (Louisiana, Maine, Pennsylvania, and Vermont), and \$2,500 (New Hampshire and Ohio). Some states demand that the agricultural revenue represent a percentage of the property owner's adjusted gross income. Income from the property must represent at least 10% in Alaska, 33 1/3% of a family's income in South Dakota, 50% in Connecticut, and 80% in Utah. In Minnesota, if a property owner fails to earn the \$300 plus \$10 per tillable acre then they must earn at least 33 1/3% of their income from agricultural land to be eligible.

Some states also require staggered income floors for a property. For example, Vermont requires that in one of the previous two or three of the previous five years that property earned at least \$2,000 for properties up to 25 acres, and then \$75 per acre for each acre over 25, with the total income required not exceeding \$5,000. In Maryland the State Department of Assessment and Taxation may elect to apply a \$2,500 gross income requirement. Other states are less discriminating and require that the property simply generate some profit (Arizona, Delaware, and Iowa) or be the property owner's primary occupation (Colorado and Texas). North Dakota represents the exception in its method for determining income production eligibility in that it requires that land produce revenue less than the county average of revenue per acre for non-agricultural land as calculated by the agricultural economics department of North Dakota State University.

Besides plot or land size and income requirements a few states also require prior certification, and in one state evidence that the owner is participating in a management plan. Four states (Alaska, Colorado, Louisiana, and Tennessee) require prior certification from the state or local assessor for agricultural land, and only North Carolina requires a management plan for agricultural property seeking a preferential assessment. The state's Sound Management Plan is only necessary if the property owner cannot present evidence that the property meets the \$1,000 income production floor.

Prior years' land use and the need for a multi-year commitment represent the two final major eligibility requirements for property owners seeking preferential assessments for their agricultural property. Fourteen states require a minimum number of years that the land has been used for agricultural property. Seven states require at least two years or seasons (Colorado, Illinois, Massachusetts, North Dakota, New Jersey, New York, and Utah), four require three years or seasons (Idaho, North Carolina, Ohio, and Pennsylvania), South Dakota requires five years, Minnesota requires seven years, and Maine requires one of the previous two or three of the

previous five years. Of the nine states that require a multi-year commitment most demand a minimum of ten years in the program (California, Delaware, Georgia, Idaho, and Washington), and three states require fewer than ten years (Arizona—7, Maryland—5, and Texas—3). North Carolina does not require a multi-year commitment but still imposes a penalty if the land changes its use unless the property is enrolled in a federal, state, local government, or nonprofit conservation reserve program.

Agriculture: Value Methodologies

Determining agricultural use-value is complicated (Locken, Bills & Boisvert, 1978). States rely on one of four approaches to valuation. Often states use formulas that take a range of factors, such as gross income, soil productivity, production costs, and potential rental income, into account to estimate the property's agricultural value. States like Alabama, Florida, Maine, and Mississippi, fall into this category. For example, in Alabama crop production, revenues, return, and income flow determine use-value. Florida relies on factors that include: the quantity and size of the property; the condition of the property; the present market value of the property as agricultural land; the income produced by the property; the productivity of land in its present use; and, the economic merchantability of the agricultural product. Maine's Department of Agriculture, Food and Rural Resources considers farmland rentals, farmer-to-farmer sales, soil types and quality, commodity values, topography and "other relevant factors." The Mississippi State Tax Commission advises assessors to use soil types, productivity, and an income capitalization rate of at least 10% with a moving average of at least 10 years. Similarly, some states, like Louisiana, rely on formulas with fewer factors, such as net income divided by the capitalization rate.

Income-producing capacity represents a second common approach states use to estimate use-value. States, like New Hampshire, South Dakota, Texas, and Washington, rely on this method. New Hampshire defines income-producing capability based on the current use solely for growing agricultural crops. South Dakota identifies the agricultural income value of agricultural land based on the capitalized annual cash rent of the agricultural land. Texas established use-value according to the land's capacity to produce agricultural products, which is determined by capitalizing the average net income the land would have yielded under prudent management from production of agricultural products during the five preceding years. Similarly, in Washington the assessor considers the earning or productive capacity of comparable lands from crops grown most typically in the area averaged over a period of at least five years.

Anderson illustrates the complexity associated with states' efforts to measure the income-producing capacity of a property. Anderson's review of issues varies from seemingly basic factors, such as definitions, to the intricacies of capitalization rates. For example, he notes that a key question is whether the agricultural land comprises forestland or wetlands, and both commercial and residential agricultural land? With respect to capitalization rates, Anderson believes some states might experience challenges in selecting appropriate discount rates (p. 10) and in structuring interest rates (p. 11). He identifies myriad efforts to establish capitalization rates. Some states rely on a computed rate that is subject to limitations; others include a risk or liquidity adjustment, or make some sort of assumption about the financing of the land (p. 12).