



Virginia's Use-Value Taxation Program

Patrick County Presentation

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Virginia's Use-Value Taxation Program



- **Use-value taxation** means that the land portion of eligible real estate is valued and taxed in accordance with the class use for which it is eligible rather than being valued and taxed in accordance with its fair market value (P. Marshall).
- *Eligible* land can be assessed at the land's *value in use* (use-value) as opposed to the land's *market value*



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Eligible land

Land must meet the following requirements in order to be considered for use-value taxation:

- **Agriculture and horticulture** lands: 5 acres minimum and be a *bona fide* agricultural or horticultural operation.
- **Forest** land: 20 acres minimum of productive and nonproductive forest land with certification that the real estate is being used in a planned program of timber management and soil conservation practices.
- **Open space** land: 5 acres minimum lands, other than agricultural, horticultural, or forest lands, are used or preserved for park or recreational purposes, conservation, flood ways, wetlands, riparian buffers, historic or scenic purposes, community shaping purposes, or for the public interest. (Code of Virginia § 58.1-3230 -3233).



Virginia's Use-Value Taxation Program



- Part 1 - Farm Example
- Part 2 - Background, Organization, and Basic Process



Virginia's Use-Value Taxation Program



Part 1 - Farm Example

- Consider a farm in Prince Edward County in TY2008 with 349 acres.
- Comprised of
 - 113 acres (Class I land),
 - 48 acres with good drainage (Class II),
 - 82 acres with poor drainage (Class II),
 - 5 acres (Class III),
 - 1 acre (Class IV), and
 - 100 acres (Class VI)
- **Assume that the Fair Market Value of the land is \$1,500/acre**



Virginia's Use-Value Taxation Program



Farm Example (Prince Edward County)

Table 1a: Estimated use-values of agricultural land by jurisdiction.

Estimates apply to tax-year 2008.

		<i>Cropland</i>					<i>Pastureland</i>					
		I	II	III	IV	AVG I-IV	V	VI	VII	AVG V-VII	AVG I-VII	VIII
Prince Edward	<i>W/Out Risk</i>	300	270	200	160	230	120	100	60	80	200	20
	<i>W/Risk</i>	280	250	190	150	210	110	90	60	70	180	20



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Farm Example

Use-value Assessment TY2008	Fair Market Value (Estimated)
Class I 113 acres (\$300/acre) = \$33,900	
Class II	
Good drainage 48 acres (\$270/acre) = \$12,960	
Poor drainage 82 acres (\$250/acre) = \$20,500	349 acres (\$1,500/acre) = \$523,500
Class III 5 acres (\$200/acre) = \$1,000	
Class IV 1 acre (\$160/acre) = \$160	
Class VI 100 acres (\$100/acre) = \$10,000	
<p style="text-align: center;"><i>Total Assessment (using land classes) = \$78,520</i></p>	<p style="text-align: center;"><i>Fair Market Value = \$523,500</i></p>
<p><i>Total Assessment (using AVG \$200/acre) = \$69,800</i></p>	
<p style="text-align: center;"><i>Fair Market Assessed Value \$523, 500</i></p> <p style="text-align: center;"><i>Use-value Assessed Value - <u>\$78,520</u></i></p> <p style="text-align: center;"><i>Deferred Value \$444,980</i></p>	



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Farm Example

Deferred Taxes

Use-Value Assessment TY2008			Fair Market Value (Estimated)		
<i>Total Assessment (using land classes)</i>		\$78,520	<i>Fair Market Value</i>		\$523,500
Property Tax	\$0.57/\$100	0.0057	Property Tax	\$0.57/\$100	0.0057
<i>Use-Value Property Tax</i>		\$447.56	<i>Fair Market Property Tax</i>		\$2,983.00
<i>Fair Market Value Property Tax</i>			\$2,983.00		
<i>Use-Value Property Tax</i>			<u>- \$447.56</u>		
<i>Deferred Tax</i>			\$2,535.44		



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Farm Example

Note:

- If the land contained farm structures, e.g., a poultry house and/or grain bins, they would be taxed at their fair market value. Use-value assessment only applies to land.
- Farm dwellings and lots are taxed at fair market value.

Assumptions:

- Owner meets all eligibility requirements for use-value assessment.
- No forest use-value in this example.



Virginia's Use-Value Taxation Program



Part 2 - Background, Organization, and Basic Process

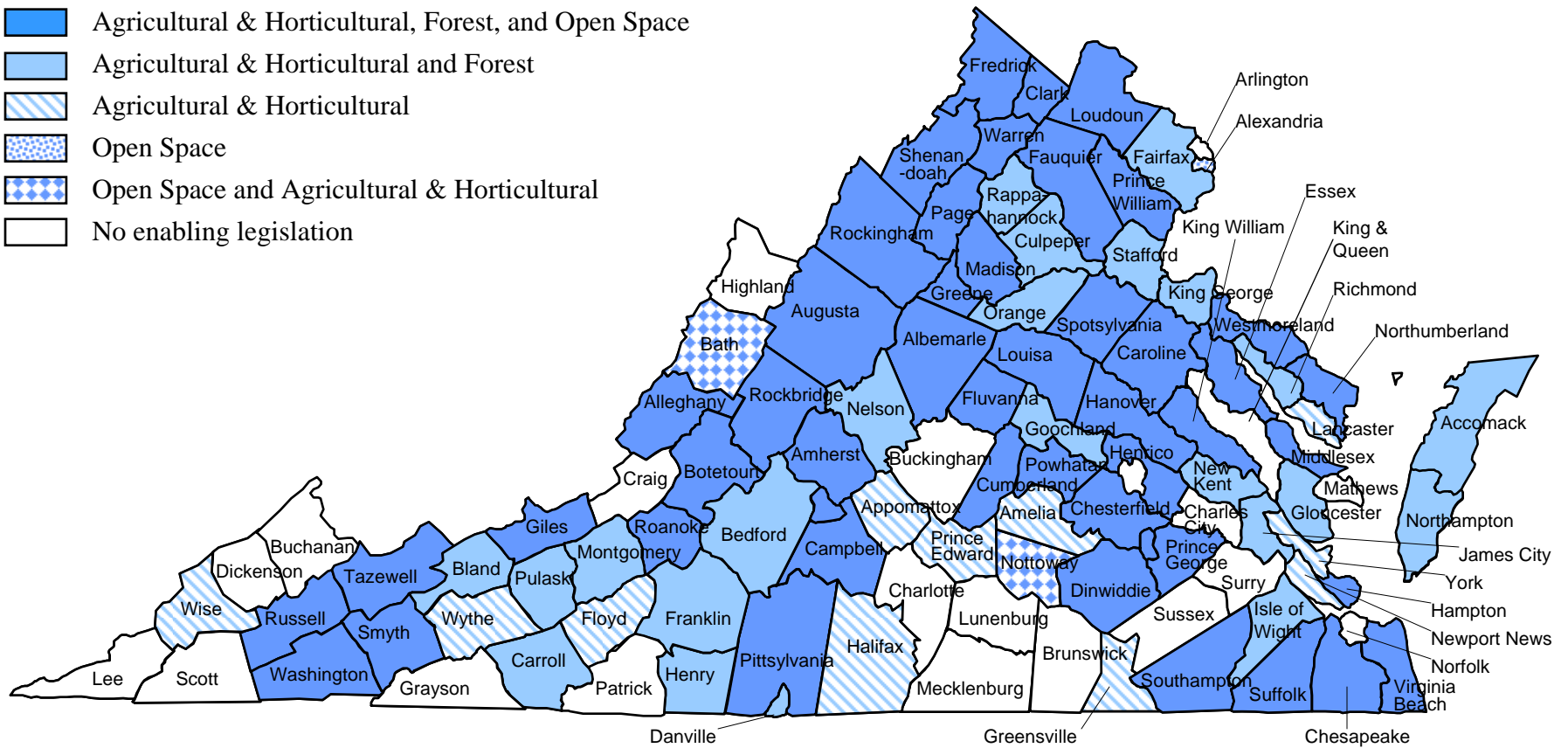
- Currently (TY2009):
 - **Agricultural and horticultural** lands: 94 counties/cities
 - **Forest** lands: 77 counties/cities
 - **Open Space** lands: 53 counties/cities
- If no local ordinance has been adopted, landowners may still qualify if their land is in an Agricultural or Forestal District



TY2009: Counties/Cities* with enabling legislation for use-value taxation (Agricultural & Horticultural, Forest, and Open Space)



-  Agricultural & Horticultural, Forest, and Open Space
-  Agricultural & Horticultural and Forest
-  Agricultural & Horticultural
-  Open Space
-  Open Space and Agricultural & Horticultural
-  No enabling legislation



*Counties/Cities identified from use-value estimate reports which may differ from actual implementation. Some city participants are not identified on map.



Virginia's Use-Value Taxation Program



Organization/Stipulations

- State Land Evaluation and Advisory Council (SLEAC) provides annual use-value estimates for each jurisdiction in the program
 - State Tax Commissioner (Chair)
 - Commissioner of Agriculture
 - State Forester
 - Director of VA Department of Conservation and Recreation
 - Dean of Virginia Tech College of Agriculture and Life Sciences
- ***Responsibility for final value of assessment resides with the local assessing officer***
- ***Buildings and other improvements “on the land” are assessed at fair market value***



Estimating Use-Values



The Composite Farm

- The county's composite farm is a *typical farm* within the county
- Primary crops (beginning TY2010):
 - Corn
 - Alfalfa
 - Barley
 - Hay
 - Wheat
 - Soybeans
 - Potatoes
 - Cotton
 - Pasture
 - Peanuts
 - Tobacco
- Crop acreage from latest Census of Agriculture
- Only crops with 1 or more acres in the composite farm are considered



Estimating Use-Values



Patrick County

(DY2007 Crop Budgets and DCP Payments)

(Number of Farms = 613)	<u>Acres*</u>	<u>Composite Farm</u>	<u>Net Returns</u>
Corn	2,145	3	\$ 24.31
Alfalfa	676	1	\$ 0.00
Hay	14,338	23	\$ 0.00
Wheat	293	0	--
Barley	--	--	--
Soybeans	264	0	--
Potatoes	149	0	--
Cotton	--	--	--
Pasture	21,579	35	\$ 23.95**
Peanuts	--	--	--
Tobacco	311	1	\$ 0.00
<i>Double-cropped</i>	<i>(-) 293</i>	<i>(-) 0</i>	
<i>Total</i>	<i>33,437</i>	<i>63</i>	

* 2007 Ag Census

** 2008 Pasture Budget

Final Net Return \$ 14.42



Estimating Use-Values



$$\text{Use value} = \frac{\text{Net Return}}{\text{Capitalization Rate}} \quad \frac{\$14.42}{0.0791} = \$182.40$$

$\$182.40 / 1.121$ (Patrick Soil Index) = $\$162.66$

$\$162.66$ rounded to $\$160$ (Type III w/o Risk Estimate for Patrick)

Net Return Variables:

- Crop Prices
- Crop Yields
- Input Prices
- Net of Federal Crop Insurance payments and subsidies
- Federal Payments

Capitalization Rate Variables:

- Long-Term Interest Rates
- Local Property Taxes



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Patrick County

Table 1a: Estimated use-values of agricultural land by jurisdiction.

TY2009 Use-Value Estimates

		<i>Cropland</i>					<i>Pastureland</i>						
		I	II	III	IV	AVG I-IV	V	VI	VII	AVG V-VII	AVG I-VII	VIII	
Patrick County	<i>W/Out Risk</i>	240	220	160	130	180	100	80	50	80	160	20	
	<i>W/Risk</i>	230	210	150	120	170	90	80	50	80	150	20	



Estimating Use-Values



Adjusting for Land Class

Class	Index	
I	1.5	Soils have few limitations restricting use.
II	1.35	Soils have moderate limitations that reduce choice of plants or require moderate conservation practices.
III	1	Soils have severe limitations that reduce the choice of plants, require special conservation practices, or both.
IV	0.8	Soils have very severe limitations that restrict the choice of plants, require very careful management, or both.
V	0.6	Soils are subject to little or no erosion but have other limitations, impractical to remove, that limit their use largely to pasture, range, woodland, or wildlife food and cover.
VI	0.5	Soils have severe limitations that make them generally unsuited to cultivation and limit their use largely to pasture or range, woodland, or wildlife food and cover.
VII	0.3	Soils have very severe limitations that make them unsuited to cultivation and that restrict their use largely to grazing, woodland, or wildlife.
VIII	0.1	Soils and land forms have limitations that preclude their use for commercial plant production and restrict their use to recreation, wildlife, or water supply, or to aesthetic purposes.



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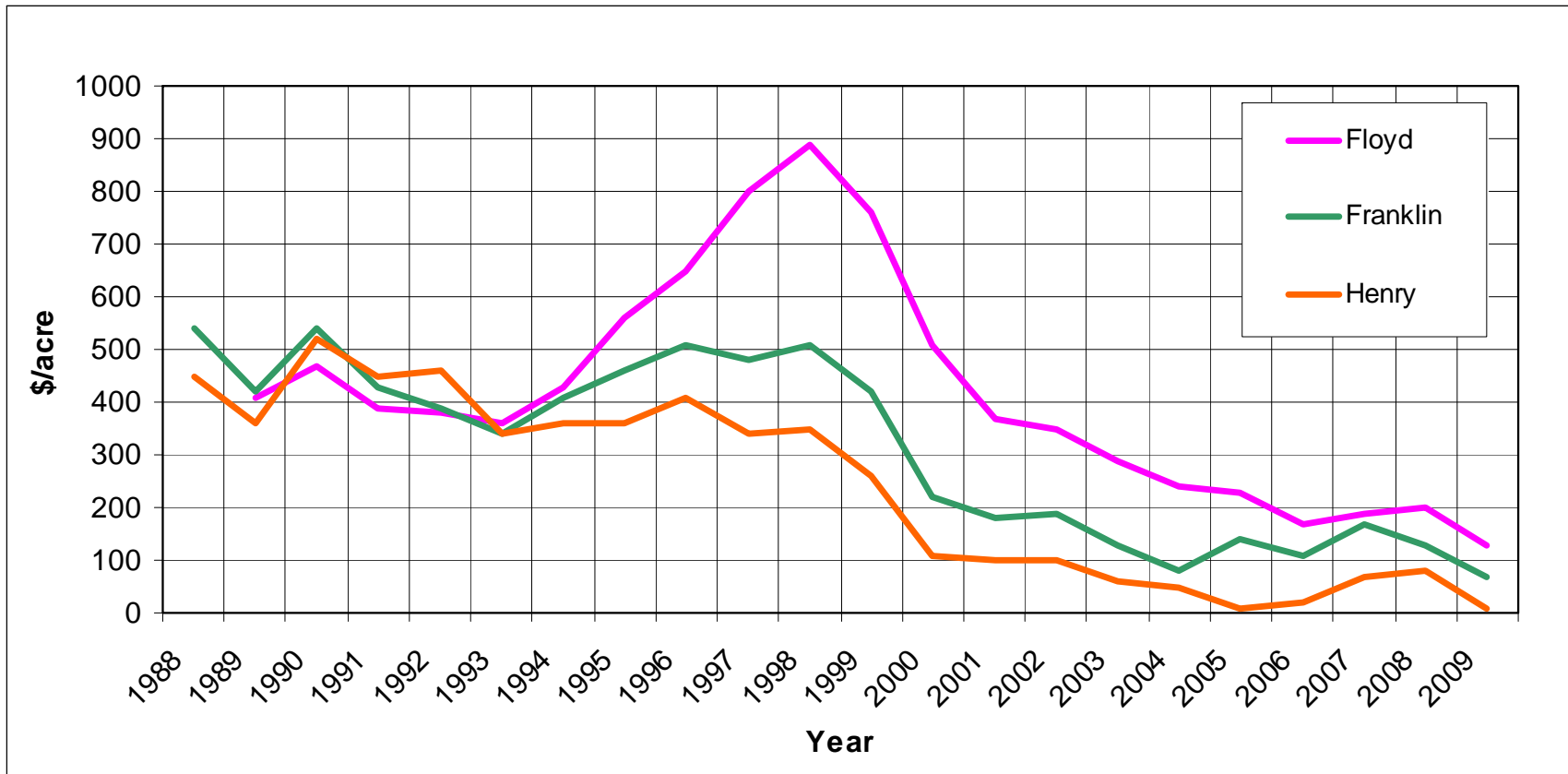


Increasing Stability

- Average Crop Budgets
 - based on a moving 7-year Olympic average
- Average Interest Rates
 - Capitalization rate is based on a moving 10-year straight average



Use-Value Estimates (Type III w/o Risk Land) for Floyd, Franklin, and Henry Counties (1988-2009)





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Caveats and shortcomings of estimation techniques

- Not all existing crops budgeted
- Data lags
- Averaging process
- Pastureland added in TY 2010
- Tobacco and peanuts modeled in TY 2010



Useful Reports

- *Use-Value Website* <http://usevalue.agecon.vt.edu/>
- The following reports are available on the website at:
<http://usevalue.agecon.vt.edu/publications.htm>
 - Why Use-Value Estimates Differ: Comparing Halifax and Pittsylvania Counties (2008)
 - Use-Value Taxation in Virginia: A Brief Discussion (2006)
 - Results of the 2003 Agricultural and Horticultural Use-Value Taxation Program Survey (2004)
 - Measuring the Impact of Use-Value Taxation for Northampton County, Virginia (2004)



Thanks!
&
Questions?

Handout at
usevalue.agecon.vt.edu



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Patrick County

Table 1b: Estimated use values of Orchards by jurisdiction.

TY2009 Use-value Estimates

		I	II	III	IV	V	VI	VII	VII
Patrick County	<i>Apple</i>	200	170	110	80	60	50	30	20
	<i>Other</i>	210	170	120	80	60	50	30	20



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Orchard/Hort Operations

- Add-on values apply to apples and other tree-fruit
- Method for estimating net returns to orchard operation was developed in 1977