



# *Virginia's Use-Value Taxation Program*

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# *Virginia's Use-Value Taxation Program*



- **Land Use Tax, Land Use Assessment, and Use-value Taxation** are used interchangeably and all mean:

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 (J. Paxton Marshall).

- **Eligible land** can be assessed at the land's *value in use* (use-value) as opposed to the land's *market value*
- **Buildings and other improvements “on the land” are assessed at fair market value**



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## **Three Classes of Eligible land**

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

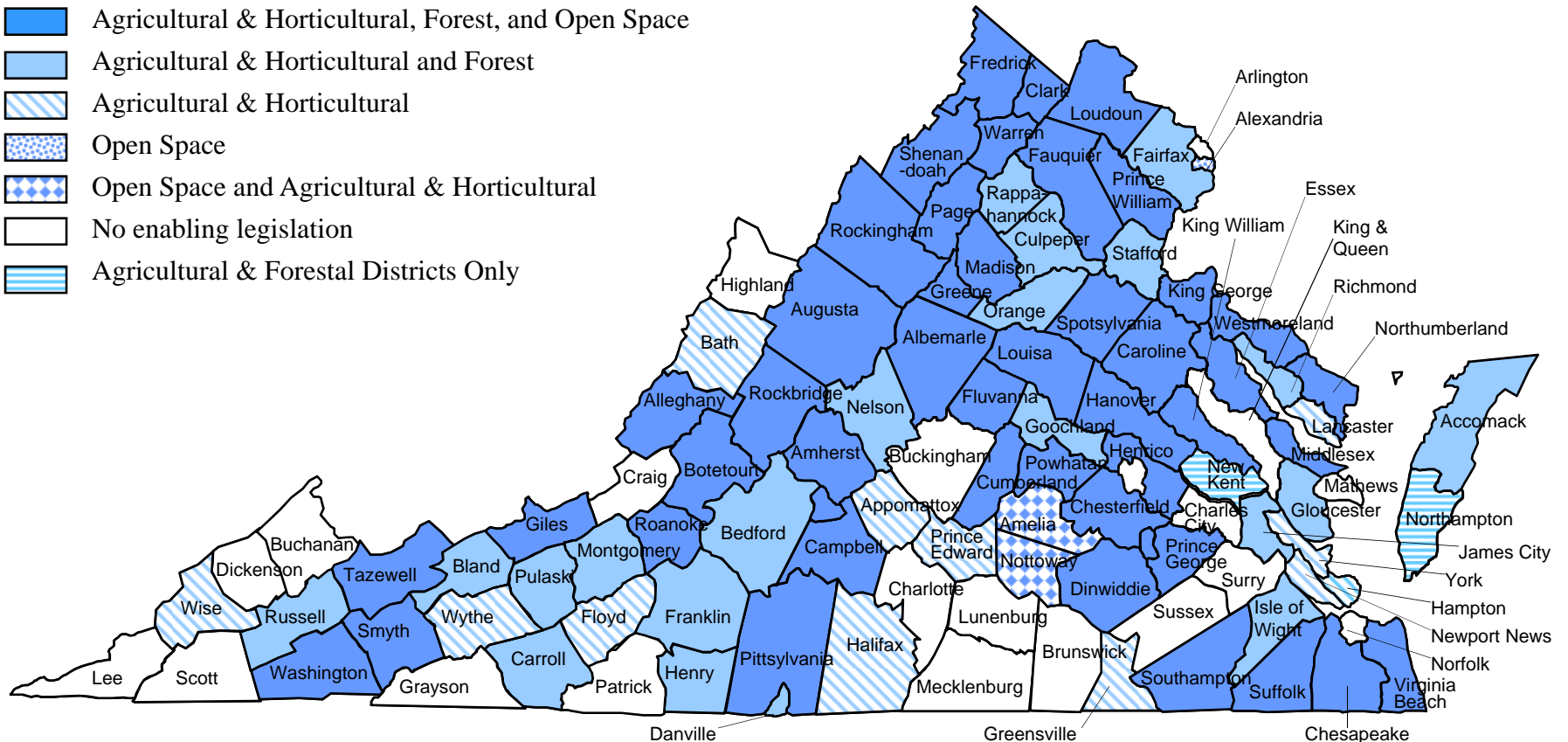
- **Agriculture and horticulture** lands: 5 acres minimum and be a *bona fide* agricultural or horticultural operation.
- **Forest** land: 20 acres minimum of productive and nonproductive forest land with certification that the real estate is being used in a planned program of timber management and soil 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).



# Counties/Cities\* with enabling legislation for use-value taxation



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



\* Counties/Cities are identified from annual use-value reports and may differ from actual implementation. Contact government officials in each county/city for the current use-value implementation. Not all participating cities are identified on this map.



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- Currently (TY2011):
  - **Agricultural and horticultural** lands: 92 counties/cities
  - **Forest** lands: 75 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 and Forestal District



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## **Agricultural or Forestal District**

- Allows landowners to voluntarily apply and establish agricultural and forestal districts
- Allows local government the power to establish and oversee the district(s)
- 200 acres in one parcel or contiguous parcels
- Established for a specific time, e.g., 10 years
  - May be renewed or discontinued



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## **Applying for Use-Value Taxation (owned or rented)**

- Local gov't must adopt an ordinance
- Commissioner of the Revenue (COR) are responsible
- Must apply in advance
- Must meet \$, acres, management, and plan requirements
- May need 3 years of production history
- May need crop or financial data
- May need to reapply and validate practice on a regularly basis – 1-5 years
- Land that meets requirements cannot be excluded



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## **Getting out – planned or unplanned**

- If land use is changed (sold, death, change deed, stopped farming, leased,...) to a non-qualifying use
  - Will owe 5 years of back taxes
  - May owe interest penalties
- COR do check landbook records against tax records
- If there is a change check with COR
- Can withdraw property and wait 5 years w/no recapture of taxes or penalties





# *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, usually the COR*



# *Virginia's Use-Value Taxation Program*

## **Farm Example**



- Consider a farm in Cumberland County in TY2011 with 400 acres (150 ac cropland, 150 ac pastureland, and 100 ac timber land)
- Comprised of
  - 100 acres (Class I land),
  - 50 acres (Class III),
  - 150 acre (Class IV), and
  - 100 acres (Good forest)
  - **Assume that the Fair Market Value of the land is \$1,500/acre**
- Use-value assessment values are based on 2 approaches
  - Capitalized income (Ag, hort, and forest)
  - Capitalized rental rates (Ag)

$$\text{Use value} = \frac{\text{Net Return}}{\text{Capitalization Rate}}$$



# Virginia's Use-Value



## TY2011 Values for Cumberland County

<b>Income Approach: 2011 Estimated use values of agricultural land (\$/acre)</b>											
	<i>Cropland</i>					<i>Pastureland</i>					
	I	II	III	IV	<b>AVG I-IV</b>	V	VI	VII	<b>AVG V-VII</b>	<b>AVG I-VII</b>	VIII
<i>W/Out Risk</i>	190	170	130	100	<b>140</b>	80	60	40	<b>50</b>	<b>120</b>	10
<i>W/Risk</i>	180	160	120	100	<b>130</b>	70	60	40	<b>50</b>	<b>110</b>	10

<b>Rental Rates Approach: 2011 Estimated use values of agricultural land (\$/acre)</b>	<i>Cropland</i>	<i>Pastureland</i>
	300	220

2011 Forest Land Use Values	Fair	Good	Excellent	Non-Productive land
Cumberland County	340	471	682	100



# Virginia's Use-Value Taxation Program



## Farm Example

<b>Income Approach TY2011</b>				<b>Fair Market Value (Estimated)</b>	
Class I	100 acres	(\$190/acre)	= \$19,000	400 acres	(\$1,500/acre) = \$600,000
Class III	50 acres	(\$130/acre)	= \$6,500		
Class IV	150 acres	(\$100/acre)	= \$15,000		
Good forest land	100 acres	(\$471/acre)	= \$47,100		
<i>Total Assessment (using land classes) = \$87,600</i>				<i>Fair Market Value = \$600,000</i>	
<i>Total Assessment (using AVG \$140/acre) = \$89,100</i>					
<i>Fair Market Assessed Value</i>				<i>\$600,000</i>	
<i>Use-value Assessed (income) Value</i>				<i><u>-\$89,100</u></i>	
<i>Deferred Value</i>				<i>\$510,900</i>	



# Virginia's Use-Value Taxation Program



## Farm Example

Rental Rate TY2011	Fair Market Value (Estimated)						
<p><i>Cropland 150 (\$300/acre) = \$45,000</i></p> <p><i>Pastureland 150 acres (\$220/acre) = \$33,000</i></p> <p><i>Forest 100 acres (\$471/acre) = \$47,100</i></p>	<p><i>Fair Market Value \$600,000</i></p>						
<p><i>Total Assessment (Rental rates) and Good Forest = \$125,100</i></p> <table style="margin-left: auto; margin-right: auto;"> <tr> <td><i>Fair Market Assessed Value</i></td> <td><i>\$ 600,000</i></td> </tr> <tr> <td><i>Use-value Assessed (rental) Value</i></td> <td><i><u>-\$ 125,100</u></i></td> </tr> <tr> <td><i>Deferred Value</i></td> <td><i>\$ 474,900</i></td> </tr> </table>		<i>Fair Market Assessed Value</i>	<i>\$ 600,000</i>	<i>Use-value Assessed (rental) Value</i>	<i><u>-\$ 125,100</u></i>	<i>Deferred Value</i>	<i>\$ 474,900</i>
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<i>Deferred Value</i>	<i>\$ 474,900</i>						



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## **Farm Example**

### *Deferred Taxes*

	<b>Fair Market Value</b>	<b>Income Approach</b>	<b>Rental Rate Approach</b>
Total Values	\$600,000	\$89,100	\$125,100
Property Tax Rate	\$0.68/\$100		
Property Tax	\$4,080	\$606	\$851
Deferred Taxes for 5 years		\$3,474	\$3,229



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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.



# *Virginia's Use-Value Taxation Program*



## **Orchard/Hort Operations**

- **Horticultural** is only apples and other tree fruit (pears and stone fruit)
- Add-on values apply to apples and other tree-fruit
- Method for estimating net returns to orchard operation was developed in 1977





# Useful Reports

- *Use value website* **[usevalue.agecon.vt.edu](http://usevalue.agecon.vt.edu)**
- *Why Use-value Estimates Differ: Comparing Halifax and Pittsylvania Counties*  
**[usevalue.agecon.vt.edu/publications.htm](http://usevalue.agecon.vt.edu/publications.htm)**
- *Use-Value Taxation in Virginia: A Brief Discussion*  
**[usevalue.agecon.vt.edu/publications.htm](http://usevalue.agecon.vt.edu/publications.htm)**
- *Results of the 2003 Agricultural and Horticultural Use-Value Taxation Program Survey*  
**[usevalue.agecon.vt.edu/publications.htm](http://usevalue.agecon.vt.edu/publications.htm)**
- *Measuring the Impact of Use-Value Taxation for Northampton County, Virginia*  
**[usevalue.agecon.vt.edu/publications.htm](http://usevalue.agecon.vt.edu/publications.htm)**



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*Thanks!*  
*&*  
*Questions?*

*For more information see*  
*[usevalue.agecon.vt.edu](http://usevalue.agecon.vt.edu)*