Virginia's Use-Value Taxation Program

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Virginia's Use-Value Taxation Program

- Part 1 – Farm Example
- Part 2 – Background, Organization, and Basic Process
- Part 3 – Our Role in Estimated Values
- Part 4 – In the Future

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Farm Example

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

Estimates apply to tax-year 2008.

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

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Prince Edward Example - 349 ac

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	
Total Use-value Assessment			=	***$78,520***	***Fair Market Value = $523,500***
Fair Market Assessed Value					***$523, 500***
Use-value Assessed Value					***- $78,520***
Deferred Value					***$444,980***

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Farm Example

Deferred Taxes

Use-value Assessment TY2008			**Fair Market Value (Estimated)**		
Total Use-value Assessment		***$78,520***	***Fair Market Value***		***$523,500***
Property Tax	$0.57/$100	0.0057	Property Tax	$0.57/$100	0.0057
Use-value Property Tax		***$447.56***	***Fair Market Property Tax***		***$2,983.00***
Fair Market Value Property Tax ***Use-value Property Tax*** ***Deferred Tax***			***$2,983.00*** ***- $447.56*** ***$2,535.44***		

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Part 2 – Background and Organization

Land must meet the following requirements in order to be considered eligible 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).

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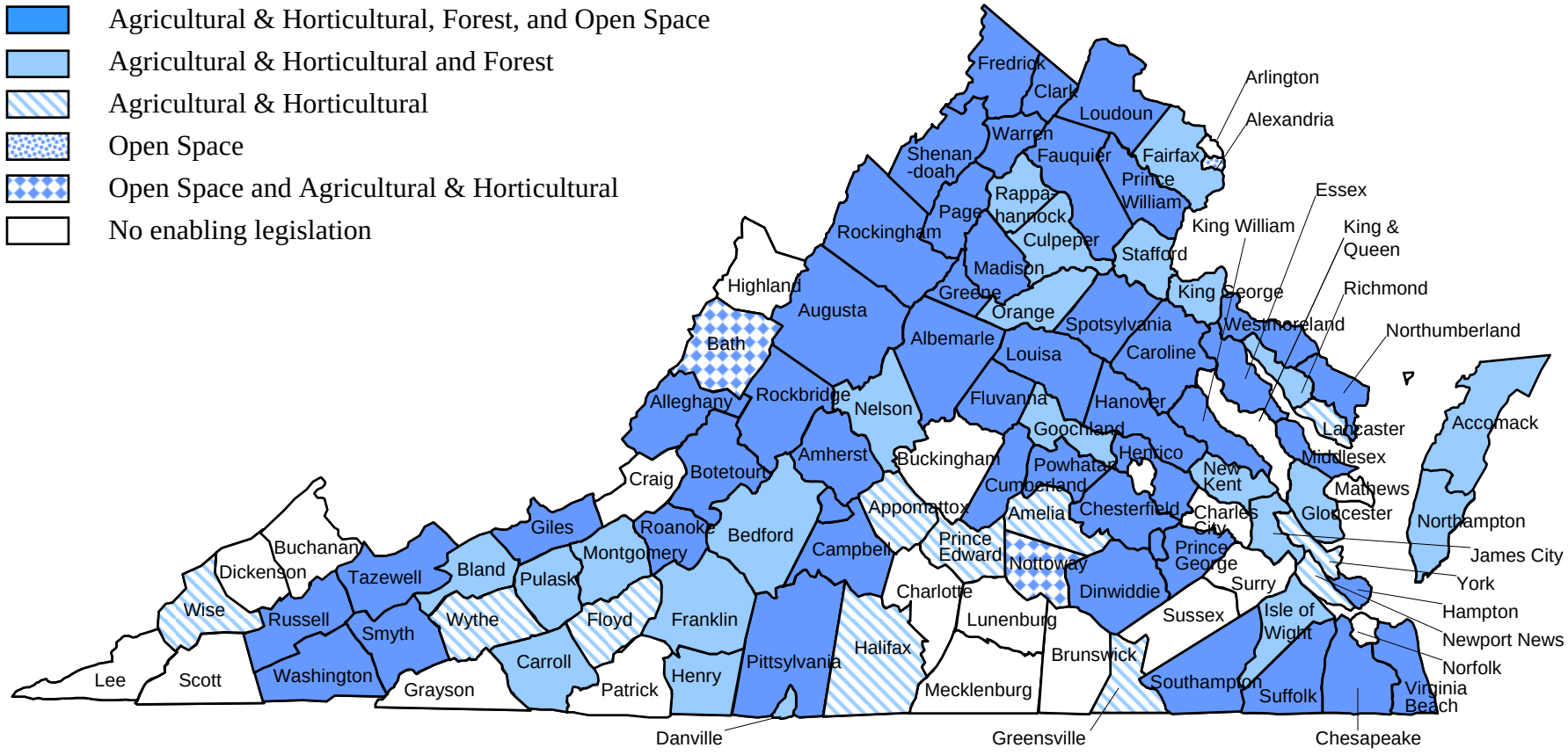
- Currently (TY2009)[1]:
  - **Agricultural and horticultural** lands: 94 counties/cities
  - **Forest** lands: 77 counties/cities
  - **Open Space** lands: 52 counties/cities
- If no local ordinance has been adopted, landowners may still qualify if their land is in an Agricultural or Forestal District

[1] There are a total of 134 Counties/Cities in Virginia (Note. In 2001, Clifton Forge relinquished its city status) (Virginia Tech, http://www.cdcd.vt.edu/fips-va.html)

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



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

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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 <u>assessing officer</u>***
- ***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:
  - Corn
  - Alfalfa
  - Barley
  - Hay
  - Wheat
  - Soybeans
  - Potatoes
  - Cotton (began tax-year 2000)
- Crop acreage from latest Census of Agriculture (2002)
- Only crops with 1 or more acres in the composite farm are considered

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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

Estimating Use Values

TY2008 Prince Edward County

	Total Acreage	Composite Farm	Est. Net Returns
Number of Farms = 395			
Corn	**1,430**	**4**	**$ 75.20**
Alfalfa	**1,043**	**3**	**$ 56.52**
Hay	**12,818**	**32**	**$ 4.75**
Wheat	**268**	**1**	**$152.48**
Barley	**202**	**1**	**$ 50.56**
Soybeans	**--**	**--**	**--**
Potatoes	**10**	**0**	**--**
Cotton	**--**	**--**	**--**
Double-cropped	**- 470**	**- 1**	**--**
Total	***15,301***	***39***	
		Total Est. Net Return	**$18.20**

Estimating Use Values

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

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

Estimating Use Values

Adjusting for Land Class (USDA)

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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Prince Edward County

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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

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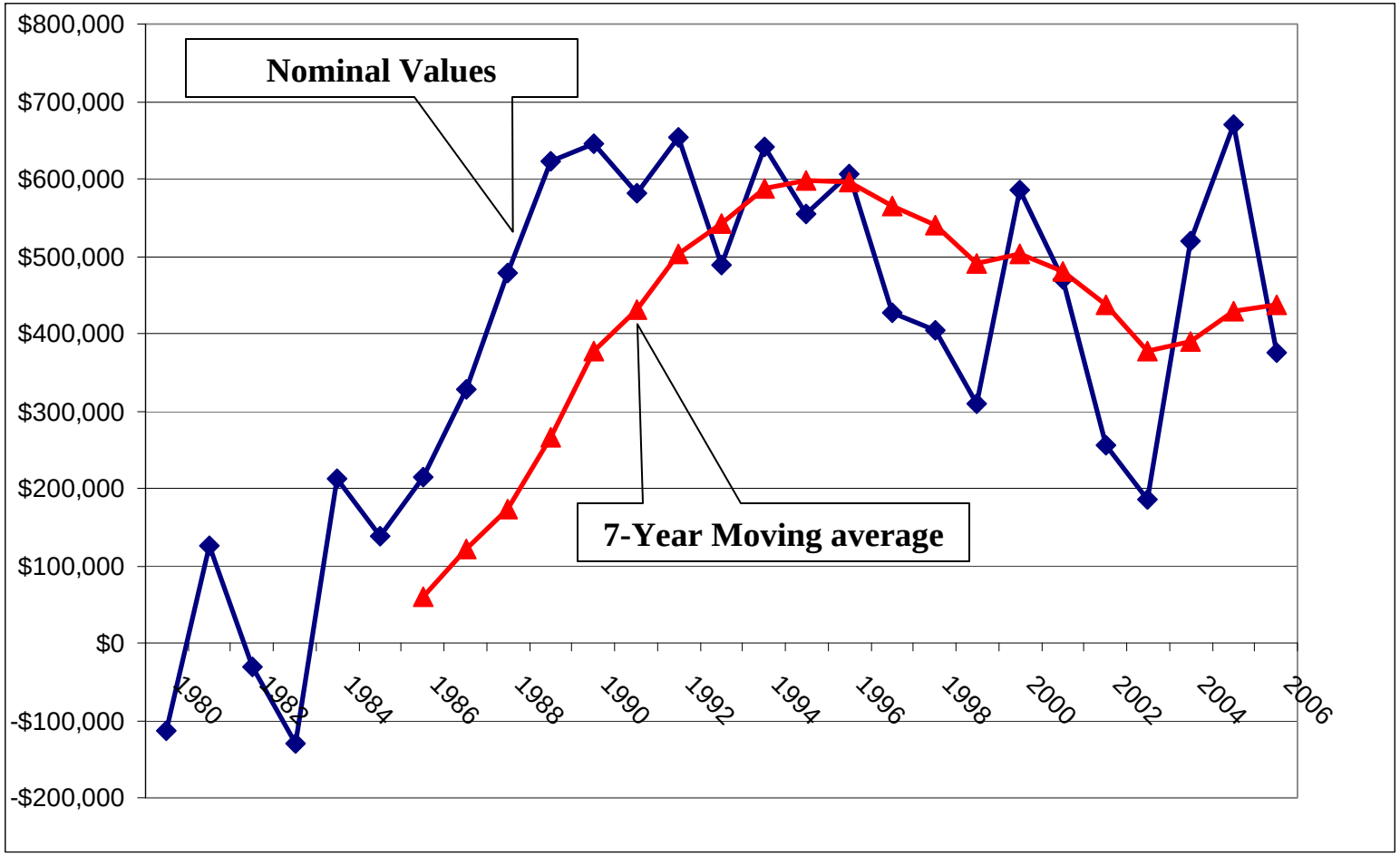
Part 3 – Our Role in Estimated Values

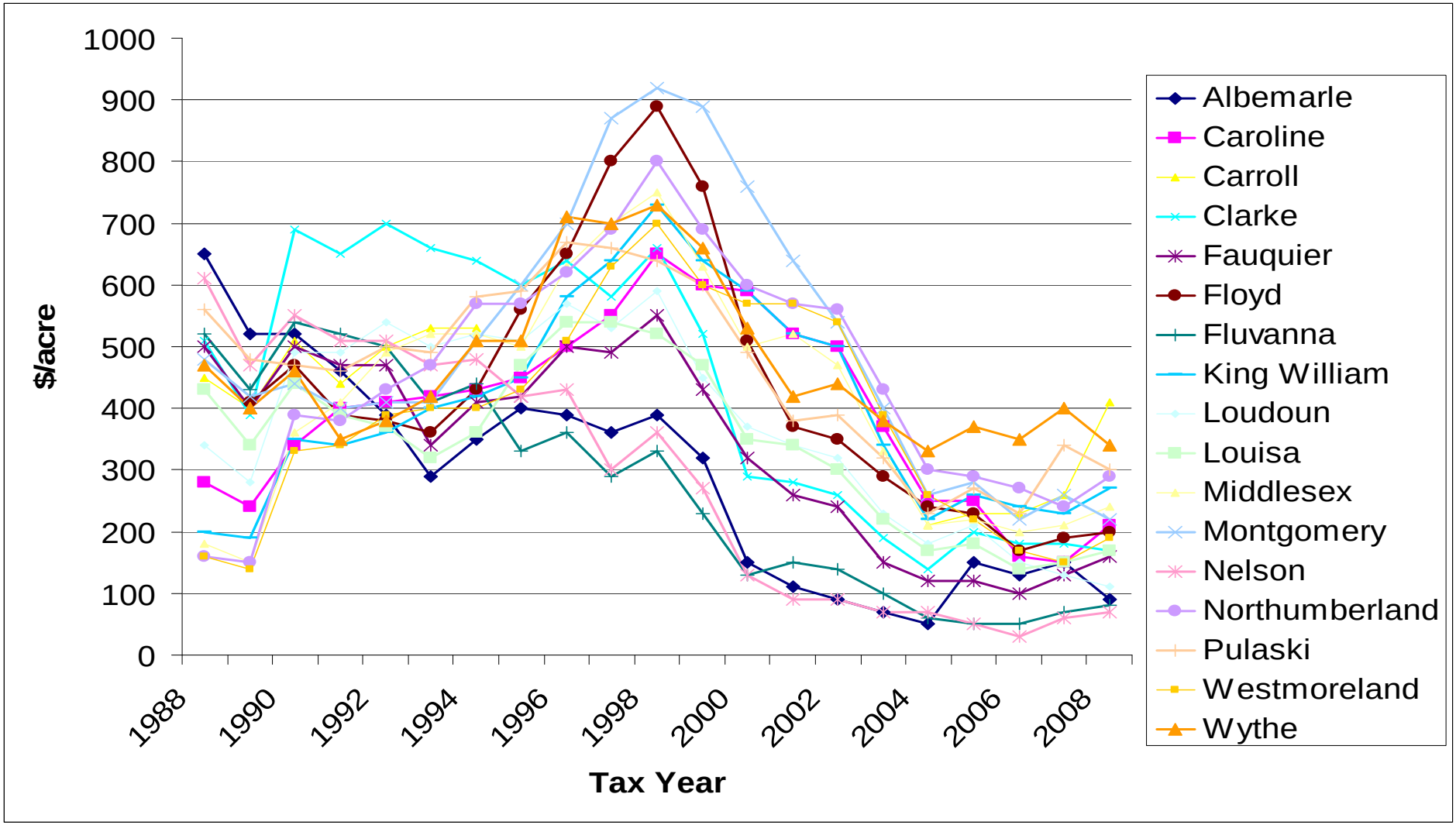
- Contract w/TAX to estimate values for Ag and Horticultural land
  - Estimates track farm profitability
  - Implies farmers' ability to pay
- Estimates provided to all participating Commissioners of the Revenue for consideration
- Provide capitalization rates for all participating jurisdiction to Department of Forestry and DCR
- Provide informational and educational services

Total Net Returns ($1,000)
All Virginia Farms



Source: Economic Research Service/USDA

Use-value Estimates (Type III, without risk land)
1988-2008 (data lags 2 years)



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Caveats and shortcomings of estimation techniques

- Not all existing crops budgeted
- Data lags
- Averaging process
- Pastureland not modeled
- Tobacco and peanuts modeled with new Ag Census

In the Future

- 2007 Ag Census – Feb 2009
  - Change in crops reported
  - Acres
- New crops – as add-ons or primary crops
  - vegetables, grapes, Christmas trees
- Next year – bring back peanuts and tobacco (this time, as a primary crop)
- Pasture add on??

Useful Reports

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

Thanks!
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Questions?