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
# Virginia’s Use-Value Taxation Program

## Farm Example

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

Estimates apply to tax-year 2008.

<table>
<thead>
<tr>
<th></th>
<th>Cropland</th>
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<td>Prince Edward</td>
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</tr>
</tbody>
</table>
### Virginia’s Use-Value Taxation Program

#### Prince Edward Example - 349 ac

<table>
<thead>
<tr>
<th>Use-value Assessment TY2008</th>
<th>Fair Market Value (Estimated)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Class I</strong> 113 acres ($300/acre) = $33,900</td>
<td></td>
</tr>
<tr>
<td><strong>Class II</strong></td>
<td></td>
</tr>
<tr>
<td>Good drainage 48 acres ($270/acre) = $12,960</td>
<td></td>
</tr>
<tr>
<td>Poor drainage 82 acres ($250/acre) = $20,500</td>
<td></td>
</tr>
<tr>
<td><strong>Class III</strong> 5 acres ($200/acre) = $1,000</td>
<td></td>
</tr>
<tr>
<td><strong>Class IV</strong> 1 acre ($160/acre) = $160</td>
<td></td>
</tr>
<tr>
<td><strong>Class VI</strong> 100 acres ($100/acre) = $10,000</td>
<td></td>
</tr>
<tr>
<td><strong>Total Use-value Assessment</strong> = $78,520</td>
<td><strong>Fair Market Value</strong> = $523,500</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fair Market Assessed Value</strong></td>
<td><strong>Use-value Assessed Value</strong></td>
</tr>
<tr>
<td>$523,500</td>
<td>$78,520</td>
</tr>
</tbody>
</table>
## Virginia’s Use-Value Taxation Program

### Farm Example

#### Deferred Taxes

<table>
<thead>
<tr>
<th>Use-value Assessment TY2008</th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Use-value Assessment</strong></td>
<td><strong>$78,520</strong></td>
</tr>
<tr>
<td><strong>Property Tax</strong></td>
<td><strong>$0.57/$100</strong></td>
</tr>
<tr>
<td><strong>Use-value Property Tax</strong></td>
<td><strong>$447.56</strong></td>
</tr>
</tbody>
</table>

**Fair Market Value Property Tax**

<table>
<thead>
<tr>
<th><strong>Use-value Property Tax</strong></th>
<th><strong>Deferred Tax</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>$2,983.00</strong></td>
<td><strong>$2,535.44</strong></td>
</tr>
</tbody>
</table>
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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.cdc.d.vt.edu/fips-va.html)
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.
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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 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:
  • 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**

<table>
<thead>
<tr>
<th>Crop</th>
<th>Total Acreage</th>
<th>Composite Farm</th>
<th>Est. Net Returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>1,430</td>
<td>4</td>
<td>$75.20</td>
</tr>
<tr>
<td>Alfalfa</td>
<td>1,043</td>
<td>3</td>
<td>$56.52</td>
</tr>
<tr>
<td>Hay</td>
<td>12,818</td>
<td>32</td>
<td>$4.75</td>
</tr>
<tr>
<td>Wheat</td>
<td>268</td>
<td>1</td>
<td>$152.48</td>
</tr>
<tr>
<td>Barley</td>
<td>202</td>
<td>1</td>
<td>$50.56</td>
</tr>
<tr>
<td>Soybeans</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Potatoes</td>
<td>10</td>
<td>0</td>
<td>--</td>
</tr>
<tr>
<td>Cotton</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Double-cropped</td>
<td>- 470</td>
<td>- 1</td>
<td>--</td>
</tr>
</tbody>
</table>

**Total** 15,301 39

Total Est. Net Return $18.20
Estimating Use Values

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

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)

<table>
<thead>
<tr>
<th>Class</th>
<th>Index</th>
<th>Description</th>
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<tbody>
<tr>
<td>I</td>
<td>1.5</td>
<td>Soils have few limitations restricting use.</td>
</tr>
<tr>
<td>II</td>
<td>1.35</td>
<td>Soils have moderate limitations that reduce choice of plants or require moderate conservation practices.</td>
</tr>
<tr>
<td>III</td>
<td>1</td>
<td><strong>Soils have severe limitations that reduce the choice of plants, require special conservation practices, or both.</strong></td>
</tr>
<tr>
<td>IV</td>
<td>0.8</td>
<td>Soils have very severe limitations that restrict the choice of plants, require very careful management, or both.</td>
</tr>
<tr>
<td>V</td>
<td>0.6</td>
<td>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.</td>
</tr>
<tr>
<td>VI</td>
<td>0.5</td>
<td>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.</td>
</tr>
<tr>
<td>VII</td>
<td>0.3</td>
<td>Soils have very severe limitations that make them unsuited to cultivation and that restrict their use largely to grazing, woodland, or wildlife.</td>
</tr>
<tr>
<td>VIII</td>
<td>0.1</td>
<td>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.</td>
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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)
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!
&
Questions?