

# *Virginia's Use-Value Assessment Program*

*Gordon Groover and Lex Bruce*

*Department of Agricultural & Applied Economics Virginia Tech*

*(540) 231-5850*

*[groover@vt.edu](mailto:groover@vt.edu)*

*(540) 231-4441*

*[lbruce@vt.edu](mailto:lbruce@vt.edu)*

***Web site: [usevalue.agecon.vt.edu](http://usevalue.agecon.vt.edu)***

# *Virginia's Use-Value Assessment 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**

# *Virginia's Use-Value Assessment Program*

## **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).



# *Virginia's Use-Value Assessment Program*

- Currently (TY2017):
  - **Agricultural and horticultural** lands: 91 counties/cities
  - **Forest** lands: 74 counties/cities
  - **Open Space** lands: 56 counties/cities
- If no local ordinance has been adopted, landowners may still qualify if their land is in an Agricultural and Forestal District (e.g., New Kent and Northampton)

# *Virginia's Use-Value Assessment Program*

## **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

# *Virginia's Use-Value Assessment Program*

## **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

# *Virginia's Use-Value Assessment Program*

## **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 Assessment 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 Assessment Program*

## **Farm Example**

- Consider a farm in **Culpeper County in TY2017** 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 **\$4,500/acre**
- Use-value assessment values are based on 2 approaches
  - **Capitalized income** (Ag, hort, and forest)
  - **Capitalized rental rates** (Ag)

# *Virginia's Use-Value Assessment Program*

## **TY2017 Values for Culpeper County**

<b>Income Approach: 2017 Estimated use values of agricultural land (\$/acre)</b>											
	<i>Cropland</i>					<i>Pastureland</i>					
	I	II	III	IV	AVG I-IV	V	VI	VII	AVG V-VII	AVG I-VII	VIII
<i>W/Out Risk</i>	920	830	610	490	<b>680</b>	370	310	180	<b>290</b>	<b>610</b>	60
<i>W/Risk</i>	870	790	580	470	<b>650</b>	350	290	170	<b>270</b>	<b>580</b>	60

<b>Rental Rate Approach: 2017 Estimated use values of agricultural land (\$/acre)</b>	<i>Cropland</i>	<i>Pastureland</i>
		700

<b>2017 Forest Land Use Values</b>	<i>Fair</i>	<i>Good</i>	<i>Excellent</i>	<i>Non-Productive land</i>
<b>Culpeper County</b>	232	344	378	100

# *Virginia's Use-Value Assessment Program*

## **Farm Example**

<b>Income Approach TY2017</b>	<b>Fair Market Value (Estimated)</b>
Class I                    100 acres    (\$920/acre)    =    \$92,000 Class III                    50 acres    (\$610/acre)    =    \$30,500 Class IV                    150 acres    (\$490/acre)    =    \$73,500 Good Forest land        100 acres    (\$344/acre)    =    \$34,400	400 acres    (\$4,500/acre)    =    \$1,800,000
<b>Total Assessment (using land classes) = \$230,400</b>	<b>Fair Market Value = \$1,800,000</b>
<b>Total Assessment (using AVG \$680/acre) = \$272,000</b>	
<b>Fair Market Assessed Value</b>	<b>\$1,800,000</b>
<b>Use-value Assessed (income) Value</b>	<u><b>-\$230,400</b></u>
<b>Deferred Value</b>	<b>\$1,569,600</b>

# *Virginia's Use-Value Assessment Program*

## **Farm Example**

### *Deferred Taxes*

	<b>Fair Market Value</b>	<b>Income Approach</b>	<b>Rental Rate Approach</b>
Total Values	\$1,800,000	\$230,400	\$244,400 <sup>1</sup>
Property Tax Rate	\$0.73/\$100 (Year 2016)		
Property Tax	\$13,140	\$1,682	\$1,784
Deferred Taxes for 1 year		\$11,458	\$11,356
Deferred Taxes for 5 years		\$57,290	\$56,780

<sup>1</sup>Rental Rate for Agricultural Cropland (300 acres) plus Forest Value – Good (100 acres)

# *Virginia's Use-Value Assessment Program*

## **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 Assessment 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

# *Virginia's Use-Value Assessment Program*

## **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)



# *Virginia's Use-Value Taxation Program*

- **Agriculture and Horticulture**
  - **Lex Bruce** (fbruce@vt.edu) Phone (540) 231-4441
  - **Gordon Groover** (groover@vt.edu) Phone (540) 231-5850
- **Forest – VA Department of Forestry**
  - **Dean Cumbia** (434) 977-6555
- **Open Space – Department Conservation and Recreation**
  - **Sarah Richardson** - (sarah.richardson@dcr.virginia.gov), Phone 804-225-2048

*Thanks!*  
*&*  
*Questions?*

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