A Survey of Use-Value Assessment Laws in the South

By Pamela H. Rodgers and Gerry H. Williams
ABSTRACT

In recent years all of the Southern states have passed legislation providing for the assessment of agricultural, forestal, and/or open space land on the basis of current use rather than market value in determining property tax. One goal of this effort has been the preservation of these lands. The purpose of this study is to inventory the use-value assessment laws in the Southern states and to identify to the extent possible their impact on the preservation of agricultural, forestal, or open space land. The results indicate that few impact studies have been done and therefore little evidence is available upon which to base a definitive statement concerning the effect of use-value laws on the preservation of various lands. The study does provide a survey of the existing use-value assessment laws in the Southern states and provides a basis for comparing these statutes. The information contained in this study was collected by surveying copies or synopses of legislation, manuals for implementation of the laws, guidelines for the determination of ranges of use values, journal articles, and results of or proposals for impact studies.
A SURVEY OF USE-VALUE ASSESSMENT LAWS IN THE SOUTH

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INTRODUCTION

Millions of acres of agricultural land have been converted to non-farm uses in the last three decades. In most cases, selling an acre has been more profitable than farming it or grazing it. Declining farm profitability, rising property taxes, expanding urban growth, and soaring land values have all contributed to the loss of agricultural land (National Agricultural Lands Study, 1980). The Southeastern United States lost nearly 8.5 million acres of agricultural land during the 1967-1977 decade, and more than 31 million U.S. acres were converted to non-farm uses during the same time period (Costomiris, 1981). The growth of population in rural areas has been a contributing factor to land conversion in the Southeast. At the same time the Sunbelt states have watched as the "urban fringe" has expanded into rural areas and the economic base has shifted to include less agribusiness and more manufacturing and government services.

This growing threat to U.S. farmland has become more serious in the economic environment of the 1980s, and many states have responded to this threat by enacting tax legislation to preserve agricultural, forestal, and open space land. Of the several types of tax programs designed to retard the loss of agricultural land, the most widely used program is use-value assessment, sometimes referred to as differential assessment (National Agricultural Lands Study, 1980). Use-value assessment is divided into three categories: (a) preferential assessment, (b) deferred taxation, and (c) restrictive agreements. Preferential assessment
laws allow eligible land to be valued according to its current use rather than its market value. Deferred taxation also allows eligible land to be valued on the basis of current use rather than its market value but provides that landowners be required to pay the previously exempted taxes (usually the difference between the taxes payable on use value and the taxes that would be payable on market value) in the event that the land is converted to another use. Restrictive agreements are covenants made by local government with individual landowners in which the landowners agree not to convert land to an ineligible use for a given time period in exchange for special use classification (Hady and Sibold, 1974).

Most researchers agree that as a deterrent to the conversion of agricultural and open space land, use value assessment has had mixed results (Conklin and Lesher, 1977; Gustafson and Wallace, 1975; Hady and Sibold, 1974; National Agricultural Lands Study, 1980). In fact, use-value assessment has been relatively ineffective when used alone without other land use controls (Atkinson, 1977; Berry, Coughlin and Plaut, 1978; Hady and Sibold, 1974; Hansen and Schwartz, 1975; Veseth, 1979).

Several factors are responsible for the ineffectiveness of use-value assessment as a land use control. First, it only reduces the cost of property taxes. Other factors such as the costs associated with labor, fuel, fertilizer, etc. are not addressed. Another uncontrollable factor is that the landowner may accept a high offer regardless of the fact that he is still receiving a reasonable profit on his farming operation (Berry et al., 1978; Gustafson and Wallace, 1975).
The voluntary nature of most use-value assessment programs also tends to reduce its effectiveness. Lastly, the effectiveness is dependent upon the efficiency of the implementation by local officials (Gustafson and Wallace, 1975).

Some states in which use-value assessment laws have been "on the books" for some time have begun to alter the original legislation (Classified Use Real Property Guidelines, Standard Assessment Procedures and Standard Measures of Value, Agricultural Guidelines, 1982; Guidelines for Calculation of Use Values, 1981; Guidelines for the Valuation of Open Space Land, 1981). A survey of the existing use-value assessment laws in the Southern states will provide a basis for comparison of these statutes and may reveal the reasons why some states have chosen to change the original laws.
ALABAMA

Statement of Purpose

The intent of the law is to provide for the assessment of real property engaged in agricultural pursuits on the basis of current use rather than market value. Assessment on the basis of current use rather than market value is designed to help alleviate pressure on farmers to convert their land to other uses.

Special Qualifications for Eligibility

General Obligations

The law does not narrowly define agricultural or forestal land regarding minimum acreage or minimum gross income. It does require that a parcel be engaged in bona fide agricultural or forestal pursuits. Agricultural pursuits would include the growing of vegetables or crops or the raising of livestock for commercial sale. Forestal pursuits would include the growing and sale of forest products. In addition, if the parcel of land for which agricultural classification is sought consists of less than five acres, the landowner may be required to furnish additional proof that the land is engaged in agricultural or forestal use. This proof might consist of site management plans from the Alabama Forestry Commission or photographs, surveys, or verifications of use from the local county agent or the U.S. Soil Conservation Service.
Application

Procedure

A real property owner must apply to have his property assessed at use value by filing a written application with the county tax assessor of the county where the property is located on or after October 1 but not later than January 1 in any taxable year. The application form for qualification for agricultural or forestal classification must contain a description of current use and any other information required by the tax assessor to aid him in determining if the property in question qualifies for assessment based on its current use value. Landowners wishing to have real property classified as forestal property must also furnish the tax assessor with aerial photographs of the property in question if they are available.

Level of Government Controlling the Program

The level of government that controls the administration of property tax in Alabama is the county.

Taxation Approach

In Alabama, the taxation approach used for property tax on agricultural land is deferred taxation.

If the use of taxable real property (assessed on current use value) changes to a non-qualified use within two years from the date of sale or other disposition, then additional taxes will be computed beginning the next October 1 after conversion of the property.

The next year after the property is converted to another use, taxes on that property are computed for the two ad valorem tax years
prior to the conversion and for the tax year in which the conversion took place. The tax assessor computes the amount of ad valorem taxes that would have been due on the converted property if the sale price or the market value of the property at the time of its conversion (whichever is greater) had been used instead of the current use value.

Method of Calculation of Use Values

The Alabama Department of Revenue is charged with the responsibility of developing ranges of use values annually. Initially, all land in the state is divided into soil capability classes utilizing data from the U.S. Soil Conversion Service and the Alabama Cooperative Extension Service.

Agricultural Use Values

The Department of Revenue, utilizing data from the Alabama Crop and Livestock Reporting Service, the Alabama Cooperative Extension Service and the Alabama Agricultural Experiment Station, determines the ranges of use values for agricultural property. The ranges are developed as follows:

1. The top three crops for the most recent calendar year for which statistics are available are determined on the basis of harvested acreage.

2. The gross return per year per crop is determined by multiplying the total crop production of the three crops by the seasonal average price received for these crops in each of the 10 most recent calendar years since 1973 for which statistics are available.
3. The net return per year per crop is then determined by subtracting the cost of production (using USDA cost of production data not including land costs or general farm overhead) from the gross figures for each crop.

4. The net return per year to land per crop is totalled and weighted in order to effect the average number of acres of each crop being harvested in the state over the 10 most recent calendar years since 1973 for which statistics are available. This total yields the income flow per acre.

5. The income flow per acre is divided by a capitalization rate consisting of the average of the annual effective interest rates on new Federal Land Bank loans charged by the district bank in New Orleans for the 10 most recent calendar years since 1973 for which figures are available effective October 1 of each tax year. This rate is to be reduced by 4.5% for determination made for the first tax year in which this statute applies; in subsequent years, the income flow per acre is to be divided by the average of the aforementioned annual effective rates reduced by the lesser of 4.5% or the difference between the rate and 2%.

The figure obtained utilizing this formula is to be increased by 20% for property having a productivity rating of good, unchanged for property having a productivity rating of poor and decreased by 75% for property having a non-productivity rating.

**Forestal Use Values**

The ranges of use values for forest property are determined as follows:
1. The Department of Revenue secures from the Alabama Forestry Commission data relating to the average pulpwood price per cord by timber growers in the state.

2. The gross income per acre is determined by multiplying the yield per acre of timber land of each productivity rating by the average price per cord for pulpwood. The Department of Revenue is to utilize yields of 1.38 cords per acre for land having a productivity rating of average, .75 cords per acre per year for land having a productivity rating of poor, and .6 cords per acre for land having a non-productive rating.

3. Net income per acre for land of each productivity rating is then determined by subtracting 15% for the costs associated with land ownership and management.

4. The net income per acre figures for land of each productivity rating are then divided using a capitalization rate consisting of the average of the annual effective interest rates charged on new Federal Land Bank loans by the district bank located at New Orleans for the 10 most recent calendar years since 1973 for which figures are available effective October 1 of each tax year. For the first tax year to which this statute applies, the rate is to be reduced by 4.5%. For subsequent years, the aforementioned capitalization rate is to be reduced either 4.5% or the difference between the rate and 2%, whichever is less. The figures thus obtained will constitute the ranges of current use values for land of each of the timber productivity ratings.

(Code of Alabama, 1975)
ARKANSAS

Statement of Purpose

The legislative intent of the use-value concept as it is used in the Arkansas Property Tax Code is designed to protect farmers, cattlemen, timber producers, and others from external influences that might increase the value of their property out of proportion to its income producing capability. This is especially true for agricultural or forestal properties located on the periphery of urban areas.

Special Qualifications for Eligibility

The Arkansas Assessment Coordination Division maps the soils in each of the counties into production capability units (utilizing data gathered by the Soil Conservation Service). The soil maps along with recent aerial photos are used to determine the use or classification of a parcel of land.

Application

Since the use or classification of real property for ad valorem tax purposes is determined by the county tax assessor as required by law, it is not necessary for a landowner to go through the application procedure for a special-use assessment that is required in a number of other states.
Level of Government Controlling the Program

The administration of ad valorem taxes on real property is conducted on the county level in Arkansas. Technical assistance is provided by the Assessment Coordination Division.

Taxation Approach

The State of Arkansas utilizes the preferential approach to the valuation and assessment of real property classified as agricultural. Such property is valued on the basis of the "typical" or "most probable" use for the property rather than the "highest and best" use for the property.

Method of Calculation of Use Values

The income approach to property evaluation was developed for use in Arkansas in response to a court order that all properties in the state be assessed at 20% of their market value. Since in many instances this would likely have imposed a substantial tax burden on landowners with property largely devoted to agricultural pursuits, the income approach was developed.

The income approach uses the net income from land devoted to agricultural use to derive the appraised value of the land. In order to obtain appraised land values utilizing the income approach, the following steps are used for each of the 18 soil groups:

1. Determine the average production.
2. Find the average price for the crop.
3. Determine gross income by multiplying average yield times average price.
4. Deduct 15% for management costs.

5. Deduct production costs. The remainder is income.

6. Divide net dollar per acre by 10% capitalization rate to obtain appraised value per acre.

(Act 848 of 1981; Arkansas Constitution, 1874; Guidelines for Calculation of Use Values, 1981)
FLORIDA

Statement of Purpose

The intent of the "greenbelt" law in Florida was to lower property taxes on agricultural lands in order to reduce the pressure on farmers to convert agricultural lands to other uses.

Special Qualifications for Eligibility

General Qualifications

In order to qualify for classification as agricultural land, a tract of land must be devoted primarily to "bona fide agricultural purposes" or good faith commercial agricultural use of the land. Agricultural purposes include the following pursuits: horticulture; viticulture; floriculture; forestry; dairying; livestock production; poultry; bees and fish production; or any pursuit in which the land is primarily for farm production. Factors to be considered in determining whether land is devoted to "bona fide agricultural purposes" are as follows:

1. The length of time that the land has been so engaged
2. Whether the land has been in continuous use
3. The price paid for the land
4. The size of the parcel as it relates to the specific agricultural use
5. Whether proper agricultural management practices have been utilized
6. Whether the land is under lease and, if so, the terms of the lease

7. Any other factors that may be occasionally applicable.

Application

Procedure

The landowner must file a request for agricultural classification on or before March 1 of each year and may be required to furnish such information as may be needed regarding the description of the property and its current use in order to establish that the land is actually used for bona fide agricultural purposes.

Penalty

Failure to comply with the deadline for application will preclude the landowner from having his land assessed on the basis of agricultural use.

Level of Government Controlling the Program

Property tax is administered on the county level in Florida. The county tax appraiser is the officer in charge of the administration of property tax.

Taxation Approach

The original "greenbelt" law utilized the preferential assessment approach. Under preferential assessment, the landowner is neither required to enter into a contractual agreement obligating himself to continue to devote the land to agricultural pursuits nor is he subject
to a deferred (or rollback) tax if he changes the land use.

Method of Calculation of Use Values

In Florida, the Department of Revenue recommends approaches to be used for the determination of ranges of use values to the county property appraiser. The property appraiser has the discretion of selecting the approach that he wishes to use.

The three approaches suggested by the Department of Revenue for estimating the value of agricultural lands are the market, income, and cost approaches. However, the income approach or capitalization of net income to land into an indication of value is the approach that is preferred and used in the guidelines for property appraisers.

The guidelines suggest procedures for determining ranges of use values for woodlands, pasturelands, citruslands, and croplands.

Woodlands

The procedure for the appraisal of woodlands is based on the average annual growth potential from seedling to mature timber. The annual increment of value represented by growth is recognized and then converted into a dollar value. Expenditures for management and other costs associated with timber production are deducted and the resulting annual net income is capitalized.

Pastureland

The procedure for the appraisal of pastureland is based primarily on yields with the unit of production being pounds of beef. The beef yields are converted to a dollar value from which operating
expenses are deducted and the resulting annual net income is capitalized.

**Citruslands**

Value schedules for citruslands are necessarily based upon certain factors: (a) a basic agricultural capitalization rate, (b) the base land value of citrusland, (c) the cost of the trees and planting process, (d) average numbers of trees per acre, (e) typical yield levels of trees at given ages, (f) the ages of peak output for the trees, (g) and the length of the economic life of trees. Then the costs of production and fruit prices (largely the result of external forces) must be considered.

Value schedules for citrusland using the income approach should be developed annually. Annual updates should incorporate the most recent cost and price information available.

**Croplands**

The income approach is recommended for determining the use values for agricultural lands used for vegetables and for field crops.

There are two accepted methods of obtaining income from croplands: (a) rental of the land, and (b) operation of the property by the landowners. Rental income is preferred for vegetables when it typifies the local situation. The rental income is divided by the capitalization rate with the result being the use value.

Owner-operated income is recommended for field crops when it typifies the local situation. However, whether rental income or
owner-operated income is used, it should be used throughout the county for all field crops.

A typical composite net income for corn and soybeans is recommended because corn and soybeans are the typical field crops grown throughout the field crop producing areas of Florida.

Prices used to determine gross income for field crops may be obtained from the Florida agricultural statistics which are published annually by the Florida Crop and Livestock Reporting Service. Prices will be based on a 5-year average. Then prices as determined above are multiplied by the yield per acre to obtain gross income per acre. (Yields are obtained from the Soil Conservation Service Land Capability Unit Descriptions Manual.) The gross income is then multiplied by the harvested acreage. This results in the total gross income of the crop being studied in the county for the time period studied.

The average gross income per acre is then obtained by dividing the sum of each annual total income by the sum of acres. Cost per acre is determined in the same manner.

Net income per acre is obtained by subtracting costs per acre from gross income per acre. Use values are then determined by dividing net income per acre by the capitalization rate.

(Classified Use Real Property Guidelines, Standard Assessment Procedures and Standard Measures of Value, Agricultural Guidelines, 1982)
GEORGIA

Statement of Purpose

The intent of the constitutional amendment is to provide a mechanism to reduce the pressure on landowners to convert agricultural land to other uses.

Special Qualifications for Eligibility

In order to be eligible for agricultural classification, a parcel of land must meet the following requirements.

General Qualifications

The parcel must be devoted to bona fide agricultural purposes including timber production.

Specific Qualifications

1. The parcel must contain no more than 2,000 acres.

2. The parcel must be owned by one or more natural or naturalized citizens, or a family-owned farm corporation which derives 80% or more of its gross income from bona fide agricultural pursuits within the state during the year in which eligibility is sought.

3. The landowner must enter into a covenant with the appropriate taxing authorities to devote the land to bona fide agricultural pursuits for a minimum of 10 years.

Application

The amendment does not designate a procedure for application.
Level of Government Controlling the Program

The level of government responsible for the administration of property tax in Georgia is the county.

Taxation Approach

The taxation approach used in Georgia in relation to property tax on real property is the preferential assessment. Under this approach, land devoted to bonafide agricultural pursuits is assessed for ad valorem purposes at 75% of the value assessed for other real property (market value). The law also requires a restrictive covenant between the landowner and the taxing unit where the land is located which obligates the landowner to maintain the land in agricultural use for not less than 10 years.

Method of Calculation of Use Values

County tax assessors are responsible for developing ranges of use values for their individual counties. The law does not require that a particular approach be used to determine use values for agricultural land.

(Georgia Constitution, Article 7, Sections 1 and 2, 1972)

NOTE: It should be noted that this constitutional amendment was passed in November 1982 and will require additional legislation before it can actually be implemented.
KENTUCKY

Statement of Purpose

The intent of the law providing for assessment of agricultural and horticultural land according to its use value is to help prevent the premature conversion of farmland to other uses.

Special Qualifications for Eligibility

General Qualifications for Agricultural Land

Agricultural land is defined as any tract of land used for the production of livestock, poultry, tobacco and/or other crops including timber or any tract of land devoted to and meeting the requirements and qualifications for payments pursuant to agriculture programs under an agreement with either a state or federal program.

Specific Qualifications for Agricultural Land

1. The tract must consist of at least 10 contiguous acres.
2. The tract must have had an average gross income of at least $1,000 per year during the two tax years immediately preceding the tax year for which special assessment is sought or likely evidence indicating likely receipt of income of this amount.

General Qualifications for Horticultural Land

Horticultural land is defined as a tract of land engaged in the commercial production of fruits, vegetables, flowers or ornamental plants.
Specific Qualifications for Horticultural Land

1. The tract must consist of at least five contiguous acres.

2. The tract must have had an average gross income of at least $1,000 per year during the two tax years immediately preceding the tax year for which special assessment is sought or reasonable evidence indicating likely receipt of such income.

Application

Procedure

On or before April 1 of any year the owner or owners of land engaged exclusively in agricultural or horticultural use on which the property valuation administrator has placed a fair market value may file an application for valuation at the agricultural or horticultural use value with the property value administrator in the county where the land is located. The application will remain valid until such time as the title to the property is transferred or the land use is changed.

When the property valuation administrator judges that any land on which an application has been filed has a value in excess of that for agricultural or horticultural use, the property valuation assessor must enter into the tax records the fair market value of the property. When the property valuation assessor determines that the land is qualified for valuation or agricultural or horticultural land, the valuation utilized for tax purposes will be its agricultural or horticultural value.
Nonagricultural Zoning

When the owner or owners of land devoted to agricultural or horticultural use have petitioned for and been granted a nonagricultural zoning classification, the land is no longer eligible to be assessed on the basis of agricultural or horticultural use.

Denial of Application

When an application for valuation of property as agricultural or horticultural is denied, the property valuation administrator must see that the property owner is given written notice of the denial of the application. The property owner has the right to appeal the ruling to the county board of assessment appeals or in the case of a city or special district to the appropriate appeals body within the city or district.

Level of Government Controlling the Program

In Kentucky, property tax is administered on the county level.

Taxation Approach

In Kentucky, deferred taxation is the category of use-value taxation that is used.

When land which is valued and taxed as agricultural or horticultural land is converted to another use, that portion of the parcel upon which the use is changed will be subject to deferred taxes for the current year and the immediately preceding two tax years.

When the use of a part of a parcel of land valued and taxed as agricultural or horticultural is changed either by conveyance or other action of the owner, the right of the remaining land to be retained
in the agricultural or horticultural classification will remain unimpaired provided that it meets the minimum requirements for such classification. The one exception is land on which there has been established a systematic pattern of change of use over a period of two years.

When land becomes subject to deferred taxes, the property valuation administrator or other assessing official must certify the difference in value subject to deferred tax for each of the years for which the deferred taxes are due to the county clerk or other person responsible for preparation of tax bills. That person must prepare a supplemental tax bill for each year computed at the rates applicable for the year and must see that the tax bills are delivered to the sheriff or tax collector for collection. Such bills are due and payable within 30 days after the date of issue. If unpaid within 30 days, a penalty of 6% is added to the bills. The owner or owners of land will not be liable for deferred taxes for any year in which the land was not assessed for agricultural or horticultural use.

Method of Calculation of Use Values

The suggested approach of the Department of Revenue for determining agricultural use values for ad valorem tax purposes is the income approach:

\[
\frac{\text{Projection of Stabilized Net Income}}{\text{Capitalization Rate}} = \frac{\text{Indicated Use Value}}{}
\]

In dealing with farm properties, acreage is the unit of comparison; projected expenses and income are broken down on a per acre basis. A further breakdown is made on a crop basis so that a projected
net income per acre for each of the major potential crops can be determined. The following crops are used for arriving at acreage valuations:

<table>
<thead>
<tr>
<th>Row Crops</th>
<th>Hay and Pasture</th>
</tr>
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<tbody>
<tr>
<td>1. Corn</td>
<td>1. Alfalfa hay</td>
</tr>
<tr>
<td>2. Soybeans</td>
<td>2. Other hay</td>
</tr>
<tr>
<td>3. Wheat</td>
<td>3. Pasture</td>
</tr>
<tr>
<td>4. Barley</td>
<td></td>
</tr>
</tbody>
</table>

For each of these crops (except pasture), figures compiled and published by the University of Kentucky are used to develop estimates of net income per acre. These crop budgets are prepared utilizing data collected by a statewide survey. The gross income estimates result from multiplying standard yields by prices. In order to make the estimates county specific, the budgets are adjusted using an average county yield (stabilized) for each crop. The Kentucky Department of Agriculture compiles these average annual crop yields by county and publishes them in the Kentucky Crop and Livestock Reporting Service Newsletter.

A capitalization rate is used to convert the net income per acre of each major crop into a use value. The rate used in Kentucky is based on the interest rate charged on long-term Federal Land Bank loans.

By using the basic formula (net income per acre divided by a capitalization equal value) the use value per acre for each major crop in every county can be determined.
Further adjustments are made on the basis of land class (soil capability) since all land is not capable of producing every major crop every year.

All value estimates for row crops are averaged to give a stabilized per acre value for this group; the value estimates for hay and pasture are averaged in the same manner. These averages are used for all farms in a county with adjustments made for differences in land capability class and number of acres.

In order to adjust for differences in soil capability, a farm is divided into land classes. Then the number of acres in each land class is multiplied by the value per acre for that class. The total of these values plus the value of all residences and special purpose buildings and the value of the tobacco quota ($2.50 per lb.) constitute the use value of the farm.

(Kentucky Revised Statutes, Chapter 132, Sections 450 and 452)
LOUISIANA

Statement of Purpose

It is the intent of this legislation to define use value; to define bona fide agricultural, horticultural, marsh and timber lands; to establish eligibility for use-value assessment; to provide procedures for application for use-value assessment; to prescribe penalties for violations; and to provide methods for determining use-value of agricultural, horticultural, marsh and timber lands.

Special Qualifications for Eligibility

General Qualifications

Agricultural Land. Bona fide agricultural land is land engaged in the commercial production of plants and animals or their products and/or agricultural land under a contract with a state or federal agency restricting its use for agricultural production.

Horticultural Land. Bona fide horticultural land is land engaged in the commercial production of fruits, vegetables, flowers or ornamental plants, and/or horticultural land under a contract with a state or federal agency restricting its use for agricultural production.

Marshland. Bona fide marshland is wetland other than bona fide agricultural, horticultural or timberland.

Timberland. Bona fide timberland is land stocked by forest trees of any size and species or formerly having such tree cover within the last three years not currently developed or being used
for nonforest purposes and devoted to the commercial production of
timber and timber products. Timberland under a contract to a state
or federal agency which restricts its use for timber production also
falls into this classification.

Specific Qualifications

In order to be classified as a bona fide agricultural, horticultural,
marsh or timberland and assessed at its use value, it must satisfy the
definitions of bona fide agricultural, horticultural, marsh or timber
land and be at least 10 acres in size or have an average annual
gross income of at least $2,000 in one or more of the designated
classifications for the four preceding years. In addition, the land-
owner must sign an agreement restricting the use to one or more
of the designated uses.

Application

Procedure

A landowner desiring assessment of his property on the basis
of use value must file an application with the assessor of the dis-
trict or parish where the property is located certifying that the
property is eligible for use-value assessment as bona fide agricul-
tural, horticultural, marsh or timber land. Applications must be
filed at least every four years.

In the event of a sale of the property, the purchaser of the
property must file a new application within 60 days from the date
of sale and must sign an agreement restricting the use of the land
to one or more of the designated uses.
If land having a use-value assessment is sold for a price four
times (or more) greater than its use value, the land will lose its
eligibility to be classified as bona fide agricultural, horticultural,
marsh or timber land. If the purchaser files an application, he
will be given the opportunity to demonstrate (a) that the sale
price paid includes things of value other than the land such as
stands of timber, improvements, equipment, etc., or (b) that the
land is actually in bona fide agricultural, horticultural, marsh or
timber land use and meets the requirements listed earlier for eligi-
bility for these classifications.

**Level of Government Controlling the Program**

The level of government control in the administration of property
tax in Louisiana is the parish (county).

**Taxation Approach**

In Louisiana, the approach used for use-value taxation is
deferred taxation.

When land valued and taxed under use-value assessment is con-
verted to a nonqualifying use, that portion of the land upon which
the use is changed will be subject to deferred (rollback) taxes for
the current tax year and for the preceding four tax years. The de-
ferred (rollback) taxes will become a lien on the property as of the
close of notification of the change to the person in whose name the
property is assessed. The amount of the rollback taxes will be
equal to the difference between the tax based on use value and the
tax based on the current fair market value for the current tax year
and for the preceding four tax years.
When land becomes subject to the deferred taxes, the tax assessor must certify the difference in value subject to the deferred tax for each of the years for which deferred taxes are due. These taxes will be due and payable within 30 days after the bill is issued.

**Method of Calculation of Use Values**

**Agricultural and Horticultural Lands**

The use value of bona fide agricultural and horticultural lands is to be determined by the application of the following formula: value equals net income divided by capitalization rate.

In applying this formula, the assessors must utilize the use-value table and the capitalization rate by the Louisiana Tax Commission. The formula must be applied uniformly throughout the state.

To assist the assessors in applying the formula described above and determine the net income factor to be used in the formula, the Louisiana Tax Commission must prepare and publish a table defining the different classifications of land, the range of production costs, and the gross returns based on four-year averages.

The Louisiana Tax Commission must consider the following factors in the preparation of the use values for agricultural and horticultural lands:

**Classification.** The first four classifications of the U.S. Soil Conservation Service will be used in defining the classifications of land using such modifications as may be required by special circumstances.
Range of productivity. The average soil productivity for various classifications of soils within each classification as determined by the U.S. Soil Conservation Service will be used to determine the range of productivity.

Cost of production and gross returns - weighted average. The Louisiana Tax Commission will use the weighted average cost of production and gross returns, by land classification, of major agricultural commodities produced in Louisiana for the four production years immediately preceding the year in which the table is prepared.

The capitalization rate will be the federal reserve discount rate as determined on the preceding January 1, plus 3.5%. The capitalization rate must never be less than 10%.

Marshland

The assessor of each parish containing bona fide marshland must determine the use value of such land and must assess the land on the basis of its use. The assessor must consider the following factors in determining the use value of marshland:

1. income derived from the traditional use of marshland
2. physical and economic risks attendant thereto
3. prevailing interest rates
4. liquidity of investments
5. federal and state regulatory authority governing the use of marshland.

Timberland

The use value of bona fide timberland will be determined by the following formula: value equals net income divided by capitalization
rate. Assessors must utilize the use-value table and the capitalization rate determined by the Louisiana Tax Commission in the application of the formula. This formula must be applied uniformly throughout the state.

To assist the assessors in the application of the formula and to determine the net income factor to be used in the formula, the Louisiana Tax Commission must prepare and publish a table defining the different classifications of timberland, the range of production within each class, and the range on four-year averages. The following factors should be considered in the preparation of the use-value table for timberland:

**Classification of timberland.** Class I of timberland is capable of producing more than 120 cubic feet of timber per acre per annum. Class II timberland is timberland capable of producing more than 85 but less than 120 cubic feet of timber per acre per annum. Class III timberland is timberland capable of producing less than 85 cubic feet of timber per acre per annum. Class IV timberland is timberland capable of producing less than 85 cubic feet of timber per acre per annum and which is subject to periodic overflow from natural or artificial water causes and is otherwise considered to be swampland.

**Range of productivity.** The U.S. Forest Service Periodic Surveys and the U.S. Soil Conservation Service Woodland Classifications will be used as references in the determination of the productivity of timberland.

Net income is to be determined by multiplying the annual cubic foot growth per acre for timber in each of the classifications defined
by the U.S. Forest Service Periodic Survey times the value per cubic foot of timber stumpage derived from the severance tax returns and reported by the Louisiana Tax Commission. The gross return and the management cost is to be based upon weighted averages for timberland produced in Louisiana for the four-year period immediately preceding the year in which the table is prepared.

The following factors are to be considered in determining an appropriate capitalization rate:

1. physical and economic risks
2. the effect of relative marketability of timberlands on liquidity of investments
3. competition with other investments and prevailing interest rates.
4. any other relevant factors.

The capitalization rate should never be less than 10%.

Whenever the Louisiana Tax Commission is required to prepare and publish a table or make a determination or define classifications of land, it must first hold public hearings as prescribed by the Administrative Procedures.

(Louisiana Constitution, 1976)
MISSISSIPPI

Statement of Purpose

The intent of the law providing for use-value assessment for agricultural and forest land is to ensure that the farmer is not put in a position in which it would be more advantageous to sell his property or convert it to other uses.

Special Qualifications for Eligibility

General Qualifications

In order to qualify for use value of agricultural land, a parcel of land must be engaged in the commercial production of crops, fruit, vegetables, timber, and/or other products of the soil or the raising of livestock or poultry.

Specific Qualifications

The following criteria must be met in order to establish eligibility:

1. Any land that is producing a crop or commercial product of the soil must generate a gross annual income of at least $50 per acre or must be 20 acres or more in size.

2. The landowner must make application for use value between January 1 and April 1 of each year on a form prescribed by the State Tax Commission.

3. A three-acre homesite is to be valued separately at market price for each parcel that has a residence.
4. Any improvements to the land are to be added at cost.

Application

The landowner (taxpayer) or his agent must apply for use value between January 1 and April 1 of each year on a form prescribed by the State Tax Commission. On the application, the landowner must indicate (a) the total number of acres in the parcel, (b) the total number of acres of cultivable lands and their value, (c) the number of acres actually devoted to agricultural pursuits, and (d) any buildings or other improvements subject to taxation. In addition, the taxing district in which the land is located must be listed.

Level of Government Controlling the Program

The level of government that controls the administration of property taxes in Mississippi is the county. The State Tax Commission provides technical assistance through guidelines which contain interpretations of the law as well as in-depth discussions of the procedures for determining use values.

Taxation Approach

The Mississippi statute which provides for use value assessment of agricultural land falls into the category of preferential assessment. Under a preferential assessment law, land is valued according to its current use. Further, no penalty is levied in the event that the land is later converted to another use.

Method of Calculation of Use Values

The law requires that the income capitalization approach with a capitalization rate of not less than 10% be used to determine ranges
of use values for agricultural and forestal lands in Mississippi.

**Agricultural Lands**

The law requires that local assessors use soil types and productivity classes (groups) in the appraisal of land in agricultural use. Land capability classes are developed by utilizing data from publications of the National Cooperative Soil Survey for 64 counties, and comparable information is available from the Soil Conservation Service for most of the agricultural land in the remaining 18 counties. All soil types in each county are assigned to one of five productivity groups (cropland classes I through IV are assigned separately and cropland classes V through VIII are combined to form one group).

The productivity of agricultural land is dependent upon two factors: the natural inherent capability of the soil and the management practices utilized by the producer. Land productivity should be measured using a typical level of management prevalent in the local area. Therefore, enterprise budgets (estimates of production costs for the primary agricultural crops produced in the state's major soil areas) are developed and published annually. The Crop and Livestock Reporting Service annually publishes average crop yields and average product prices received by farmers on a county-specific basis. In addition, generalized USDA estimates provide some measure of the management and farm overhead costs which must be deducted from enterprise returns in order to arrive at a net annual income to the land. These data enable enterprise budgets to be developed for each crop typically produced on each soil capability class in each county.
As mentioned above, all soil types (mapping units) in each county are assigned to one of the five productivity groups. Then each county is provided with a list of the soil types assigned to each of the five land productivity groups. In addition, each county will be provided with a use value per acre for each of five productivity groups.

In order to reduce value differences between counties with similar soil and still allow for recognition of regional variations in soil, climate and other factors affecting productivity, individual county use values have been combined into a set of use values for each of seven major soil resource areas in the state. The aggregation process is accomplished by determining a weighted average use value for each soil capability class based on the amount of acreage and the use values of all counties located in a particular soil resource area. In those counties where more than one soil resource area is represented, use values are weighted proportionally according to the amount of acreage located in each soil resource area.

Forestlands

As in the case of agricultural land, forestland is divided into productivity classes called forest site classes. There are four classes. Procedures are then developed for assigning values to forestland productivity.

Net income for forestland is determined on the basis of the value of the average annual growth and harvest per acre minus the costs of ownership and management for each forest site class. The net annual income is then capitalized at the 10% rate required by law
resulting in a use value for each site class. Since characteristics of forest production are not subject to variation identifiable on a county basis, one value for each forest site class is used statewide.

(Mississippi Cooperative Extension Service and Mississippi Agricultural and Forestry Experiment Station, 1982; Senate Bill No. 2672, 1980)
NORTH CAROLINA

Statement of Purpose

The intent of the law is to provide tax relief to bona fide farmers, horticulturalists and/or owners of forestlands to prevent the premature conversion of farmland to other uses.

Special Qualifications for Eligibility

Specific Qualifications for Agricultural Land

In order to qualify for special assessment for agricultural land, a tract of land must consist of 10 or more acres and have a gross income resulting from the sale of agricultural products produced thereon (together with any payments received from a government soil conservation or land retirement program) averaging $1,000 per year for the three years immediately preceding January 1 of the year for which special assessment is requested.

Specific Qualifications for Horticultural Land

In order to qualify for special assessment for horticultural land, a tract of land must consist of 10 or more acres and have a gross annual income resulting from the sale of horticultural products produced thereon (together with payments received under a government soil conservation or land retirement program) averaging $1,000 per acre for the three years immediately preceding January 1 of the year for which the special assessment is requested.
Special Qualification for Forestland

In order to qualify for special assessment for forestland, a tract of land must consist of two or more acres unless the property is included in a farm unit.

Application

Procedure

In order for qualified land to be eligible for special assessment, the landowner must file a timely application with the tax supervisor of the county where the property is located. The application must support the claim that the property belongs in one of the special classes and should contain any information necessary for a proper appraisal of the land on the basis of its current use value.

Reapplication

Unless there is a change in use, acreage, or ownership, no additional application is necessary until the next general revaluation.

Level of Government Controlling the Program

The level of government that controls the administration of property tax in North Carolina is the county. The Department of Revenue provides technical assistance to the local tax supervisors.

Taxation Approach

The deferred taxation approach is used in North Carolina. The difference between taxes due on the basis of present use and taxes which would have been payable without the special assessment together with interest, penalties or costs that might occur constitute
a lien on the real property. The difference in taxes is carried forward on the records as deferred taxes.

If the use of the property changes to a non-qualifying use or is transferred to a non-qualifying owner, the taxes in that year of change of use or ownership will be assessed at market value and any taxes deferred in the last three years along with interest will be payable immediately.

**Method of Calculation of Use Values**

In North Carolina the tax supervisor in each county is charged with the responsibility of preparing a schedule of use values for the various classes of qualifying land. The most commonly used method is the income approach (Pasour and Neuman, 1979). New schedules of use values must be prepared in the year of general reappraisal. Reappraisal normally occurs every eight years.

(North Carolina Machinery Act, 1979)
OKLAHOMA

Statement of Purpose

The legislative intent of the classification of real property by use for purposes of valuation is to facilitate uniform ad valorem tax assessment procedures throughout the state.

Special Qualifications for Eligibility

In Oklahoma, all taxable real property must be assessed annually at a rate not to exceed 35% of its fair cash value. The fair cash value would be the price that the property would bring at a fair voluntary sale for (a) the highest and best use for which such property was actually used during the preceding calendar year or (b) the highest and best use for which the property was last classified for use but not actually used during the preceding calendar year.

Agricultural real property is defined as land that includes any improvements thereon necessary for agricultural purposes and used for the commercial production of agricultural commodities or the breeding and/or raising of livestock including any industry recognized as farming, ranching, dairying, or forestry.

Application

Since all taxable real property is automatically classified by use, landowners do not have to go through a formal application process such as is required in some other states utilizing the concept of agricultural use value for ad valorem tax purposes.
Level of Government Controlling the Program

In Oklahoma the level of government which controls the administration of property taxes is the county.

Taxation Approach

The preferential assessment approach is used for ad valorem taxation for real property in Oklahoma. In the truest sense, all classifications of real property receive preferential treatment because all classifications are valued on the basis of their use value.

Method of Calculation of Use Values

Use-value determination of agricultural lands is based on productivity and is calculated by allowing 75% weight to the capitalization of income approach and 25% weight to the market approach, less speculation.

The capitalization of income is to be calculated on the straight line method at a rate to be determined annually by the State Tax Commission and a committee of the state assessor's association. Base factors to be considered are (a) the average mortgage rate by the Federal Land Bank for the immediately preceding five years for first mortgage loans weighted, (b) the prevailing rates for additional loans or equity, and (c) the effective tax rate.

Other factors to be considered are (a) recorded conveyances, (b) leases, (c) assignments and other recorded documents of title and (d) actual appraisals.

Agricultural real property is divided into the following subclassifications: (a) cropland, (b) tame or improved pastureland, (c) native
pastureland, (d) timberland and other unimproved land. The statewide county-by-county productivity index represents the capacity of each of the four subclassifications of agricultural real property to produce commercial grade agricultural commodities based upon soil analysis maps developed by the United States Soil Conservation Service.

Use-value determination of improvements on agricultural land is based upon the cost approach using Marshall and Swift manuals as a guideline and taking depreciation and obsolescence into consideration along with adjustments for the cost of labor and materials in the area.

(Oklahoma Tax Commission, 1981)
SOUTH CAROLINA

Statement of Purpose

The intent of the law providing for classification and assessment of real property on the basis of its use value is to ensure that the assessment of agricultural as well as all other classifications of real property is equal and uniform. Moreover, the provision of a penalty system on real property classified as agricultural is to ensure the property utilization of the agricultural classification.

Special Qualifications for Eligibility

General Qualifications

In order to be eligible to be classified as agricultural land, real property must have as its primary use one or more of the following pursuits:

1. the production of plants, trees, fowl or animals useful to man by means of raising, harvesting, or storing crops and/or feeding, breeding or managing livestock

2. the processing of products grown on the parcel of land by the owner or lessee of the tract for marketing commercially.

When one-half or more of a contiguous tract of land is used for agricultural purposes, the entire tract is to be considered as engaged in agricultural use unless some other business is being operated on the unused portion of the property.
Property not eligible for classification on the basis of use value includes agricultural real property owned or leased by a corporation which has more than 10 stockholders, has a shareholder who is not an individual (other than an estate), has a non-resident alien as a stockholder, and has more than one class of stock.

Application

Procedure

Owners of agricultural real property or their agents must make written application on or before May 1 of the tax year in which the special assessment is claimed. The application must be made to the assessor of the county in which the agricultural real property is located on forms approved by the State Tax Commission and provided by the county. Failure to apply for the special assessment will constitute a waiver of the special assessment for that tax year.

Level of Government Controlling the Program

In South Carolina, property tax is administered on the county level with technical assistance provided by the State Tax Commission.

Taxation Approach

The deferred taxation approach is used in South Carolina. Real property valued and assessed on the basis of agricultural use is subject to additional or deferred tax in the event that the land is put to another use. The amount of the deferred (roll back) taxes will be equal to the difference between the taxes paid or payable on the basis of the agricultural use value and the taxes that
would have been paid or payable had the property been valued, assessed, and taxed as other real property in the taxing district during the year of change in use and each of the five preceding years. If the real property is not valued, assessed, and taxed on the basis of agricultural use during the tax year in which the change of use occurs, then the property will only be subject to roll-back taxes for the five tax years immediately preceding. The assessor must consider the following factors in determining the amounts of the roll-back taxes to be charged on real property for each of the tax years affected by the change of use:

1. the fair market value under the valuation standard applied to other property in the same classification

2. the amount of the property assessment for each tax year involved by multiplying the fair market value by the appropriate assessment ratio

3. the amount of the additional assessment on the property for each tax year involved by deducting the amount of the actual assessment on the property for each tax year involved from the amount of the real property assessment that would have been used under the non-agricultural classification

4. the amount of the roll-back for each tax year by multiplying the amount of the additional assessment determined above by the appropriate property tax rate of the taxing district for each tax year.
Method of Calculation of Use Values

Use values for agricultural lands are determined by using the income approach. The law requires that cropland and timberland be valued separately based on their current and historical use. The values are based on soil capability relative to its use.

The values for cropland are based on production levels for the different soil types using soybeans and corn as the crops. Soil classes are set up based on levels of production. Then the price per bushel for corn and soybeans is determined. By multiplying the price per bushel by the level of production, the gross incomes for the various soil classes are obtained. Net income is then derived for the various soil classes by subtracting the expenses necessary for average production. Once net income is obtained for the various soil classes, it is divided by a capitalization rate in order to obtain agricultural use values. The capitalization rate is composed of the following components:

1. an interest rate which is the average coupon rate of all bonds which the Federal Land Bank of Columbia has outstanding for the crop years used in obtaining prices

2. a local property tax component derived by utilizing the average millage rate for the crop years used multiplied by the assessment ratio

3. a risk component of 15% used as being equivalent to a complete crop loss every six and two-thirds years

4. an illiquidity component of .3%.

The capitalization rate is determined by adding items 1, 2, and 4
and by application of the risk component in item 3.

The use values for timberland are based on potential yield of the timberland site measured by the capability of the various soil classes to produce timber under good management conditions.

The weighted price per cord of timber is derived from data in Volumes and Stumpage Values of Forest Products by Counties for the years 1976, 1977, and 1978. Then the production levels for the various soil classes are multiplied by the weighted price per cord to obtain the average gross income per acre of timberland for each of the productivity classes. Management cost per acre (a set figure of $2.75 per acre) is subtracted from gross income to obtain the net income per acre for each productivity class. The final step in the procedure is to divide the net income for each productivity class by the capitalization rate prescribed by law. The capitalization rate used for timberland is the same as the one used for cropland.

(Use Value Manual for Assessors, 1981)
TENNESSEE

Statement of Purpose

The intent of the law is to help alleviate land conversion pressures placed on agricultural, open space and forestlands as a result of urbanization, scattered residential and commercial development, and property taxation.

Special Qualifications for Eligibility

(General and specific qualifications are combined for all three classes of land – agricultural, forestland, and open space.)

Agricultural Land. Agricultural land is required to be a tract of land containing a minimum of 25 acres, including woodlands and wastelands contiguous to the remainder of the tract, which constitutes a farm-unit engaged in the production or growing of crops, plants, animals, nursery or floral products.

Forestland. Forestland refers to land constituting a forest unit engaged in the commercial production of timber under a sound forest management program or any tract containing 25 or more acres having a tree growth in such quantity and quality and so managed as to constitute a forest in the opinion of the state forester.

Open Space. Open space land refers to any area of land not less than three acres other than agricultural and forestland that is characterized principally by its natural state.
Application

Agricultural Classification

A landowner may apply for agricultural classification for his land by filing a written application for such classification with the tax assessor of the county.

An application for agricultural classification must be made on a form prescribed by the State Board of Equalization and must give a description of the land, a general description of the use to which it is devoted and any other information that the assessor may need to determine whether the land qualifies for classification as farm land.

Forestland Classification

A landowner may apply for forestland classification for his land by filing a written application with the tax assessor of the county.

An application for classification as forestland must be made on a form prescribed by the State Board of Equalization in consultation with the State Forester and must include a description of the land, a general description of the use(s) to which it is devoted, aerial photographs as they are available, and any other information required by the tax assessor or state forester to determine if the land qualifies as forestland.

Open Space Land

A landowner may apply for open space classification for land included in any area designated as open space land in an adopted comprehensive or land use plan or so designated by the state
planning office. The written application must be filed with the tax assessor of the county where the land is located. The application must be made on a form prescribed by the State Board of Equalization and must give a description of the land, a general description of the use(s) to which the land is devoted, and any other information necessary to aid the assessor in determining whether the land qualifies for the requested classification.

**Level of Government Controlling the Program**

The level of government controlling the administration of property tax in Tennessee is the county.

**Taxation Approach**

Deferred taxation is the type of use-value taxation used in Tennessee. If any land classified as agricultural, forestland, or open space land is converted to a non-qualified use, the tax assessor must compute the amount of taxes saved by the difference in present use-value assessment and market-value assessment for each of the preceding three years for agricultural and forest land and for the preceding five years for open space land. The difference between the taxes computed on the basis of present-use value and the taxes computed on the basis of market value will constitute the roll-back taxes to be levied and collected on the first assessed roll prepared after the conversion to a non-qualified use in the same manner and at the same time as other taxes.
Method of Calculation of Use Values

When a parcel of land has been classified by the tax assessor as agricultural, forestal, or open space land, it will be subsequently considered that its current use is its immediate most suitable economic use. Assessment will be based on current use rather than on its possible value if it were put to another use.

In determining the current-use value for land classified and used for agricultural or forestal purposes, the tax assessor must consider farm income, soil productivity, topography, susceptibility to flooding, rental value, replaceability as agricultural land, and other factors relevant to the determination of value for agricultural or timber production purposes.

After a parcel of land has been classified by the tax assessor as agricultural, forestal or open space land, the tax assessor must record it on a separate list for such classified property. Hereafter, the assessor must appraise the land and compute the taxes annually both on (a) farm classification (25% of appraised value) and present-use value and (b) farm classification and market value. The taxes computed under market value must be used to compute any roll-back taxes.

As is indicated, the local tax assessor has responsibility for developing ranges of use values for agricultural, forestal, and open space land. They may select the method of calculation that they want to use.

(Tennessee Code Annotated, 1976)
TEXAS

Statement of Purpose

The Texas Constitution has two separate provisions designed to protect real property engaged in some form of agricultural production or used for open space. These provisions are intended to keep this property from being diverted from agricultural or open space uses due to an increasing property tax burden. These provisions (Article VIII, Section 1-d and Article VIII, Section 1-d-1) will hereafter be referred to as Provision 1 and Provision 2, respectively.

Special Qualifications for Eligibility

Provision 1

Agricultural Land. To qualify for valuation under Article VIII, Section 1-d, the following qualifications must be met:

1. The land must be owned by a "natural person" - not a corporation or partnership.

2. The land must be devoted exclusively to or continually developed for agricultural use for the three preceding years.

3. The land must be engaged in a qualified agricultural use. The definition of "agricultural use" includes the raising of livestock or the growing of crops, fruits, flowers and other types of plants under natural conditions or as a business venture.

4. The agricultural enterprise must be the primary occupation and source of income for the landowner.
5. The landowner must make application annually by filing a sworn statement with each taxing jurisdiction.

Provision 2

In order to qualify for valuation under this provision, the following qualifications must be met:

1. The land must be currently devoted primarily to agricultural pursuits and have a history of agricultural use for five of the last seven years.

2. The land must be devoted to a qualified agricultural use such as the following: (a) cultivating the soil; (b) producing crops for human and animal consumption and the production of seed and fibers; (c) producing ornamental and/or flowering plants (floriculture); (d) producing grapes (viticulture), (e) producing fruits, vegetables, flowers, and ornamental plants (horticulture); (f) feeding, breeding or managing livestock; (g) cultivating of cover crops; and (h) allowing land to lie fallow in order to participate in a government program or normal crop or livestock rotation procedure.

Application

Provision 1

The landowner must apply each year for agricultural use assessment by filing a sworn statement in writing describing the use to which the land is devoted.
Provision 2

The landowner must apply each year for agricultural use assessment. In order to be valid, the application form must contain sufficient information necessary to substantiate the claim for eligibility, must be in a format prescribed by the School Tax Assessment Practices Board, and must be provided to the landowner by the assessor.

Level of Government Controlling the Program

The level of government which controls the administration of property tax in Texas is the county with technical help from the state. The School Tax Assessment Practices Board is charged with the responsibility of developing and distributing appraisal manuals to the county assessors.

Taxation Approach

The provisions relating to the valuation and assessment of land on the basis of agricultural use value in the Texas Constitution utilize the deferred taxation approach. Both provisions require a rollback tax amounting to the difference between taxes paid on the basis of agricultural use value and the taxes that would have been payable under another classification (or use). One provision requires that the rollback period be three years and be triggered by either a change in use or sale of the land. The other provision requires a five-year rollback period and is triggered solely by a change in use.
Calculation of Use Values for Eligible Land

Provision 1

Agricultural Land. Under the first provision, no specific method of valuation is prescribed by law, but the income capitalization approach is recommended.

Provision 2

Agricultural Land. Provision 2 prescribes that the income capitalization method applied to the average annual net income derived from the use of open space land for the five-year period immediately preceding the valuation be used as the method of valuation. The capitalization rate to be used in the determination of the value of qualified agricultural land is to be either 10% or the interest rate specified by the Federal Land Bank of Houston on December 31 of the preceding year plus two and one-half percentage points, whichever is greater.

Provision 1

Timberland. There are no special provisions for timberland.

Provision 2

Timberland. The estimates of annual average net income from timber production require a different method than the one used for agricultural lands. This is due to differences in growth and harvesting practices, the irregularity of production and management costs, and other factors. Evaluating individual tracts of timberland include the following considerations:
1. determination of whether or not the tract is principally devoted to timber production

2. classification of the timber, i.e., hardwood, pine timber, mixed timber

3. classification of the soil

4. estimation of the land's potential average annual growth

5. estimation of management and other costs associated with timber production.

Average net income and the use values for timberland may be determined for each timber category by using this information along with the capitalization schedules of gross income and costs of production and management. The capitalization rate to be used in the determination of the value of qualified timberland is the interest rate specified by the Federal Land Bank of Houston on December 31 of the preceding year plus two and one-half percentage points.

(Guidelines for the Valuation of Open Space Land, 1981)
VIRGINIA

Statement of Purpose

The intent of the law enacted for the purpose of authorizing special assessments for agricultural, horticultural, forestal land and open space land was to encourage the preservation of real property to assure a readily available source of agricultural, horticultural, and forest products as well as open spaces within the reach of concentrated areas of population.

Special Qualifications for Eligibility

Specific Qualifications for Agricultural or Horticultural Land

In order to be eligible for classification as agricultural or horticultural land, a parcel of land must contain at least five acres and must meet prescribed standards for bona fide production for sale of crops and livestock or fruits, vegetables, or ornamental plants or in approved soil conservation programs. The standards are to be prescribed by the Commissioner of Agriculture and Consumer Services.

Specific Qualifications for Forestal Lands

In order to be eligible for classification as forestland, a parcel of land must contain at least 20 acres and must meet forest use standards (i.e., commercial production of timber, wildlife conservation) prescribed by the director of the Department of Conservation and Economic Development.
Specific Qualifications for Open Space Land

In order to be eligible for classification as open space land, a parcel of land must contain at least five acres and meet standards established by the director of the Commission of Outdoor Recreation.

Application

Procedure

Property owners must submit an application for special assessment on the basis of use to the local assessing officer at least 60 days preceding the tax year for which special assessment is sought. In any year in which a general reassessment occurs, the application may be received 30 days after the taxpayer's notice of increase is mailed or 60 days preceding the tax year, whichever is later.

Reapplication

An application must be submitted whenever the use or acreage of land previously approved for use-value assessment changes. Classification and special assessment may continue with change of ownership provided there is not a change in use or a separation of a parcel from the real estate being valued. Any separated parcel will be subject to roll-back taxes.

Level of Government Controlling the Program

The level of government controlling the administration of property tax in Virginia is the county. The State Land Evaluation Advisory Committee provides technical assistance in the form of a range of suggested values for various soil capability classifications for agricultural, horticultural, forestal, and open space lands.
Taxation Approach

The State of Virginia uses the deferred tax approach in its use-value assessment. Eligible land is assessed both on the basis of fair market value and use value. The amount of tax actually paid is the amount assessed on the basis of its use value. The amount of tax still owed after the use-value tax is paid is the deferred tax (or roll-back).

Roll-back taxes are carried forward as a lien on the land for a period not to exceed the six most recent tax years. Should the landowner change the use of the land to a non-qualifying use or split off a parcel from the original eligible tract of land, the deferred tax plus annual simple interest (at the rate usually applied to delinquent taxes within the taxing unit where the land is located) becomes due and payable.

Method of Calculation of Use Values

The State Land Evaluation Advisory Committee is charged with the development of ranges of use values for each of the several soil capability classes for agricultural, horticultural, forestal and open space land. For agricultural, horticultural, and forestal lands, the income approach is used to determine the ranges of use values. Gross income per acre less production costs (for agricultural land) equals net income. The net income is then divided by a determined capitalization rate to produce the use value. For forestal lands, the gross income per acre less the costs associated with land ownership and management equals the net income per acre. This figure is divided by a determined capitalization rate to produce the use value for forestal lands.
Local Ordinance

In Virginia, the local taxing unit - county, city or town - must adopt a local ordinance authorizing use-value taxation. The taxing unit may authorize use-value assessment for any or all of the special classifications - agricultural, horticultural, forestal, or open space.

(Manual of the State Land Evaluation Advisory Committee, 1980)
ANALYSIS OF IMPACT

In North Carolina, use-value assessment legislation was passed in 1973. Although participation in the special assessment program was initially minimal, a study conducted by Neuman and Pasour (1978) revealed a noticeable increase in participation by 1976-77. Data indicated a correlation between the increase in participation in special assessment and the difference between appraised (fair-market value) and current-use value, i.e., the greater the difference in the two values, the greater the participation in special assessment (Neuman and Pasour, 1978).

By 1978, more than half of the 100 counties in North Carolina had noted some participation under the Farmland Taxation Act. However, the percentage of tracts enrolled was insignificant in half of the 58 counties in which there was participation in special assessment (Neuman and Pasour, 1978).

In 1979, participation in special assessment occurred in roughly two-thirds of the 100 counties in the state with participation in the program remaining low in half of the counties. Generally speaking, large-scale participation occurred after revaluation had taken place (Neuman and Pasour, 1978).

Participation in special assessment jumped 43% between 1979 and 1980. The primary factor responsible for the increase was the fact that general revaluation had taken place in a number of additional counties. All of the counties showing heavy enrollment in special assessment, i.e.,
500 or more parcels of land, had undergone general revaluation since the passage of the law. The difference in the use values and market values in those counties ranged from 23% to 58%, a factor which provided a strong incentive for participation in special assessment (Neuman and Pasour, 1981).

There does appear to be a trend toward increasing participation in special assessment particularly after general revaluation has taken place (Neuman and Pasour, 1979).

Legislation authorizing use-value assessment was passed in 1973 in Virginia.

A two-year study is currently being conducted under the auspices of the State Land Evaluation Committee to determine the impact of special assessment in the state. The study was begun in July 1982 (Knapp and Marshall, Note 1).

Data collected for inclusion in the study proposal indicated negligible participation until 1978. Though there was a 34% increase in participation in special assessment between 1977 and 1978, more than 40% of the eligible districts - cities and counties - still did not adopt and implement special assessment at this time (Knapp and Marshall, Note 1).

Perhaps the strongest indication of the perceived ineffectiveness of the 1973 use-value assessment legislation was passage of a law in 1977 authorizing establishment of Agricultural and Forestal Districts. The expressed purpose of this law was the protection of agricultural and forestal lands in recognition of the fact that these two categories of land constitute two of the major economic and environmental resources of
Virginia (Agricultural and Forestal Districts Act with General Synopsis by Sections, 1980).

The Southern Rural Development Center has a study in progress entitled "Differential Assessment of Agricultural Lands in the South." The study began in 1982 and has as one of its objectives the collection and interpretation of primary data relating to the impact of use-value assessment as a deterrent to the conversion of agricultural lands to other uses.

The final results of the aforementioned studies should provide a definitive statement on the impact of use-value assessment as a land-use determinant.
REFERENCE NOTE

1. Knapp, J. L. and Marshall, J. P. Use-value taxation analysis proposal submitted to the Virginia General Assembly, 1981. The study is to be conducted under the auspices of the State Land Evaluation Advisory Committee.
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