

Does Use Value Taxation Hold Potential to Lower Farmers' Property Tax Bills?

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Many farmland owners and farmers are certainly interested in lowering their tax bills and many are interested in seeking alternatives to the current system of local taxation that relies so heavily on the property tax. The proliferation of cost of community service studies supported by farm and land preservation interest groups is testimony to the fact that farmers are becoming more emphatic that they receive their "fair share" of the benefits associated with the property taxes that they pay. But farmers must keep in mind that, though no one ever likes to pay taxes, almost everyone wants their local government to provide services for them. Finding an equitable and efficient arrangement to finance these services is a very delicate matter. Taxes on real and personal property constitute just less than 60 percent of total local revenues in Virginia (Figure 1.). It goes without saying that Virginia localities rely heavily on property tax revenues to fund important local services

like education, public safety, community development, and parks and recreation.

Use value taxation reduces the local property tax base and thereby hinders the ability of local governments to provide these services without raising tax rates or reducing the quality or quantity of services provided. The adoption of use value taxation may also impose additional administrative costs on the locality that must be paid by taxpayers. These factors underscore the reality that use value taxation entails a shift in the burden of taxation from owners of qualified agricultural land to the remainder of the locality. However, a portion of this shift in tax burden is placed back on farmland owners through increased property tax rates.¹ Even though this shift in tax burden may be justified on equity or even ability-to-pay grounds, the entire community is affected and will likely want to know how this shift in tax burden affects them.

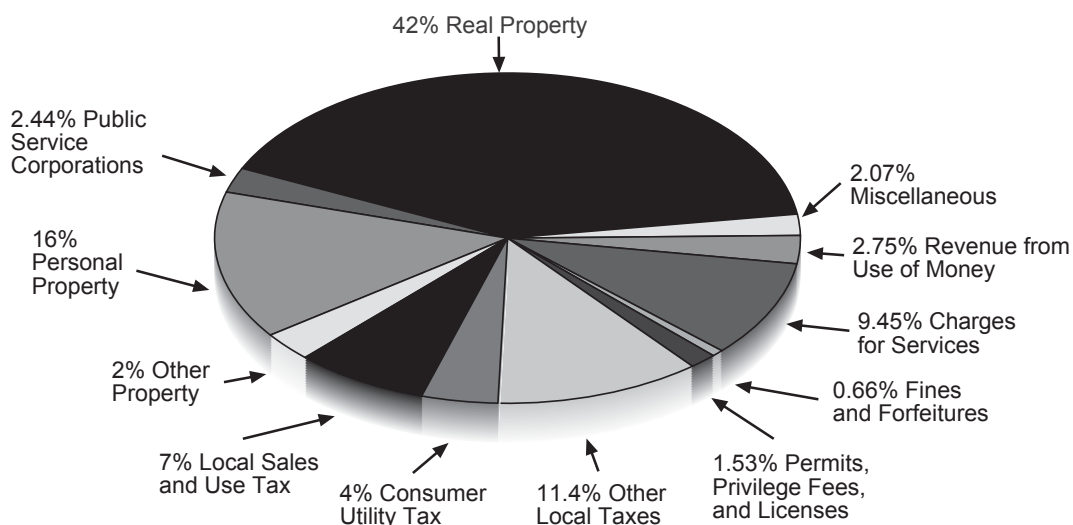


Figure 1. Total Local Revenue Distribution by Category for Virginia, Year Ended June 30, 1999.

Data source: Commonwealth of Virginia, Auditor of Public Accounts, Comparative Report of Local Government Revenue and Expenditures, Year Ended June 30, 1999. Richmond VA. 2000

Regardless of these considerations, many farmland owners and farmers would like to know if the current bout of low commodity prices, unfavorable weather conditions, and dismal net farm incomes will generate reductions in their property tax bills. The answer depends upon a number of factors that may be revealed by answering the following questions.

1 Does the locality have a use value ordinance for agricultural land or is the land in an agricultural district?

If neither, the adoption of such an ordinance would allow for some shifting of the tax burden onto others in the jurisdiction from agricultural landowners whose land is worth more in other uses than its use in agriculture. Many localities may find that constituencies other than agricultural landowners may be sympathetic and in favor of preferential treatment of farmland. Of course, this implies that tax rates will likely have to increase or the quality of public services will have to decline to accommodate the decrease in tax base. Increased tax rates and reductions in public service outputs affect farmers and non-farm residents, albeit perhaps in different proportions. If localities do decide to adopt use value taxation, it will be up to the local Commissioner of Revenue to set the assessment values on agricultural land enrolled in the program.

2 What is the highest and best use of the particular parcel of land?

If the highest and best use is agriculture, then little can be gained from adopting the agricultural use value program, as the fair market value and the value in agricultural use are indistinguishable. If the highest and best use is other than agricultural, then some agricultural landowners can most likely benefit from use value assessment. Net farm income changes are not likely to change the fair market value assessment of land if the fair market value is substantially driven by non-agricultural uses of land. If farmland is converted to non-farm uses as farmers sell off land to meet short-term cash flow needs, the value of the remaining agricultural land that does not have non-agricultural use value may increase due to a reduced supply of farmland. However, if this selling of agricultural land results in an erosion of the farm input supply base or increased pressure from an increasing number of non-farm neighbors to change to less profitable production practices, then the value of remaining land whose highest and best use is agricultural may actually decrease.

3 Is the jurisdiction against or in favor of use value taxation?

Jurisdictions must balance the needs of many constituencies. Reducing the tax burden on owners of agricultural land implies an increase in the tax rate or a reduction in government services for everyone in the jurisdiction. Efforts to lobby Commissioners of Revenue to obtain lower use value assessments may result in short term gains for farmland owners but it might undermine the long-term viability of the use value program. Further, if these lobbying efforts are successful, they might result in farm land owners receiving fewer services from their local government such as less education, fewer police patrols, slower emergency vehicle response times, or lower quality land use planning. Those who would lobby local officials should keep these factors in mind.

4 What revenue generation options are available to the jurisdiction?

The more revenue sources available to a community, the easier it is to shift tax burden across the community. Few local tax options are available in Virginia making such a tax burden shift very difficult to undertake. In localities where agriculture represents a substantial portion of the property tax base, this shifting of tax burden is especially difficult as the resulting increase in tax rates will be large. Furthermore, these increased tax rates will affect farm property owners as well as non-farm property owners. Increasing the number of local revenue generation options or the amount of non-local aid to localities from the state or federal governments will reduce the reliance on local property taxes and dampen the effect of use value taxation.

5 How are the SLEAC estimates used by Commissioners of Revenue?

If the local Commissioner of Revenue uses the estimates provided by SLEAC *directly*, it must be recognized that the methodology employed to generate these estimates is based upon the availability of published data and the actual reporting of this published data can take several years. Therefore, the SLEAC estimates typically lag behind the current farm income situation.*

6 How often does the jurisdiction reassess real property?

Even if lower net farm incomes result in lower SLEAC-produced estimates or if the local Commissioner of Revenue is inclined to reduce the assessed value of agricultural land, these changes cannot be made until

the next reassessment cycle in the jurisdiction. Virginia law requires that reassessments take place at least every five years, though some localities are given extensions. Some jurisdictions employ full-time assessment staffs and reassess continuously. Other jurisdictions, especially the more rural counties, hire consultants to conduct their reassessments and these counties by necessity reassess property on a much less frequent basis. The reassessment process can be quite expensive. Jurisdictions that experience relatively slow property value increases have relatively less incentive to undertake property reassessments at more frequent intervals. Thus, even if economic conditions call for property tax assessment decreases on farmland, it may take several years for farmland owners to realize the change.

Conclusions

Given these factors, it is not absolutely clear whether any individual farm landowner should expect lower property tax assessments as a result of the current farm income situation. Once again, the devil is in the details. In jurisdictions without use value taxation where other-than-agricultural uses have given rise to increased market values, the adoption of use value taxation will likely reduce the tax burden on farmers. In jurisdictions that currently have agricultural use value taxation, it is evident, barring a wholesale restructuring of the system of local government finance, that most farmers should not expect much property tax relief. Given this, it is imperative that they focus even more on those matters that are more under their control.

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* For more information on the SLEAC values, refer to *A Citizen's Guide to the Use Value Taxation Program in Virginia*, VCE Publication 448-037.