

# **Valuation and Taxation of Farmland**

Summary of SARL Breakout Session  
January 7, 2012

## **Ray Starling**

General Counsel & Legislative Liaison  
North Carolina Department of Agriculture and Consumer Services

## **Dr. John E. Anderson**

Baird Family Professor of Economics and Associate Dean  
College of Business Administration  
University of Nebraska-Lincoln

*Senator Michael Brubaker, Moderator*

What exactly is a farm?? Why does it matter? Why is there any debate? Verdicts in several recent court cases involving the definition of a farm posed significant ramifications for farmers. The rulings determined whether certain aspects of those farms were exempt from local labor and environmental regulations, zoning and property and sales taxes. They also influenced whether income from value-added products could be kept on the farm and whether the property qualified for land preservation incentives. One of the most recent and public cases is First Lady Michelle Obama's garden on the White House grounds.

Kentucky Representative Tom McKee commented on the breakout, "I especially liked the interactive style of this session. We were asked for our opinions as to how a court might have ruled on various actual cases involving the definition of a farm."

The short answer to "what is a farm" is "whatever you want it to be." For example, North Carolina has 22 definitions throughout its code. The federal government has changed its definition nine times. The problem is coming up with a single definition that works in all cases. Writing yet another one will not solve this problem. Courts will only look elsewhere in the statutes for clarification. Legislators need to create a general standard in their policies that delineates which items are and are not to be used in the definition of a farm.

Preferential property tax treatment for agricultural land is pervasive in the United States. If the property class can be defined, the appropriate tax assessment/rate can be applied. "Use-value assessment" is based on a property's value in a particular (current) use rather than its

market value for which comparable sales data are often unavailable or inadequate. It is therefore preferable to use the income approach for agricultural land. States should review their income capitalization methods to ensure that a logically coherent approach is being used and consistently applied. States should level a penalty when land is removed for development from a use-value assessment program.

In most rural areas the "highest and best use" is agricultural, posing no difference between market and agricultural use value. In areas affected by urbanization pressure, use-value assessment reduces the property tax burden but also depletes revenues available for rapidly developing areas. A number of factors not directly related to crops and livestock contribute to the value of agricultural land such as viewsheds and hunting rights. Land value components are most at issue at the developed edges of cities.

HANDOUTS:

[What Exactly Is a Farm and Why Does It Matter?](#)

Use-Value Assessment Practice and Policy