

# How Agricultural Property is Valued

(Prepared by the Colorado Assessors Association, Colorado Association of Tax Appraisers and Colorado Division of Property Taxation, Department of Local Affairs)

## History of Agricultural Land Valuation

Colorado Constitution and statutes prescribe that the actual value of agricultural lands, exclusive of buildings, shall be determined by consideration of the earning or productive capacity of the land over a reasonable time period. These earnings are capitalized into actual value.

In 1969, individuals representing the agricultural community met with the Colorado Tax Commission (now called the Division of Property Taxation) to establish criteria to carry out the law. They agreed upon the following provisions:

- Earning or productive capacity would be determined by measuring the landlord's net income.
- A reasonable time period would be the current ten-year average.

The State Board of Equalization approved these provisions. Colorado assessors have used them since 1970. A constitutional amendment passed by the electorate in 1982 preserves the production formula approach to value.

## Agricultural Land Definition

Colorado Revised Statutes defines agricultural land as one of the following:

- A parcel of land, whether located in an incorporated or unincorporated area, and despite the uses for which such land is zoned, that was used the previous two years and presently is used as a farm or ranch or being restored through conservation practices. The conservation practice must be a plan under the Conservation Reserve Program (CRP) or a plan approved by an appropriate conservation district.
- A parcel of land that has at least 40 acres of forest land with a forest management plan. The land must be used to produce tangible wood products that originate from the productivity of the land for the primary purpose of obtaining a monetary profit.
- A parcel of land that consists of at least 80 acres, or of less than 80 acres if such parcel does not contain any residential improvements, and that is subject to a perpetual conservation easement, if such land was classified by the Assessor as agricultural land at the time such easement was granted, if the grant of the easement was to a qualified organization, if the easement was granted exclusively for conservation purposes, and if all current and contemplated future uses of the land are described in the conservation easement. "Agricultural land" does not include any portion of such land that is actually used for nonagricultural commercial or residential purposes.

## **Agricultural Terms**

- Farm - A parcel of land that is used to produce agricultural products that originate from the land's productivity for the primary use of obtaining a monetary profit; i.e., crops have been raised, harvested, and or sold.
- Ranch - A parcel of land that is used for grazing livestock for the primary purpose of obtaining a monetary profit.
- Livestock - Domestic animals that are used for food for human or animal consumption, breeding, draft, or profit.
- Improvements - Improvements are all structures, buildings, fixtures, fences, and water rights attached to the land. Homes and buildings are appraised and valued separately from the land. Water rights, fences, windmills and sprinklers are improvements that are appraised and valued as a unit with the land.

## **The County Assessor and You**

### **Assessment Date**

Colorado law states that January 1 is the assessment date. The assessor determines the current use and value of the property as of January 1 of each year. All buildings or improvements constructed before this date will be taxed.

### **Assessor's Role**

Because the method for valuing agricultural land is based on production, the Assessor must periodically review the land to verify the continued use for agricultural purposes. To ensure your property is classified properly, the Assessor may request additional information from you. This information could be a copy of your previous year's income tax form (1040-F), a grazing lease, or an agricultural land classification questionnaire. The Assessor may also conduct a physical inspection of your land. However, the classification of your property will not be based solely on the information you supply on the questionnaire and all responses will be treated as confidential information.

### **Agricultural Property Owner's Role**

Once classified as agricultural land for valuation purposes, the Assessor must verify typical crop yields and expenses of the landlord. You may also be asked to provide additional information from your farm records.

### **Valuation of Irrigated or Dry Farm Land**

The steps in the valuation of irrigated or dry farmland are as follows:

1. Determine the basic crops raised and the cropping practices used in each farming area.
2. Establish the appropriate ten-year average yield for each crop in each farming area.
3. Determine the landlord's share of each basic crop.
4. Establish the typical landlord expenses in each farming area.
5. Calculate the landlord's net income.

6. Determine the actual value by dividing the landlord's net income by the statutory 13 percent capitalization rate.
7. For assessment purposes, the assessed value is calculated by multiplying the actual value by the statutory assessment rate of 29 percent.

Ditches, canals, flumes and sprinkler systems owned and used by individuals for irrigating land that is owned by the same individuals, are not taxed separately from the land while they are owned and used exclusively for such purposes.

### **Valuation of Grazing or Meadow Hay Land**

The steps in the valuation of grazing or meadow hay land are as follows:

1. Classify the land according to the carrying capacity for the appropriate ten-year period. Meadow hay land is uncultivated land devoted to forage production, but may be sub-irrigated.
2. Determine the gross income of the landlord based on the average Animal Unit Month (AUM) rent over the appropriate ten-year period. The AUM rental rate researched by the Division of Property Taxation is multiplied by the number of acres per AUM to get the gross income.
3. Deduct the appropriate expenses from the gross income to get the landlord's net income. These expenses are water and fence expenses and are deducted only if they are typical ten-year average expenses to the landlord. The Division of Property Taxation researches these expenses.
4. Determine the actual value by dividing the landlord's net income by the statutory 13 percent capitalization rate.
5. For assessment purposes, the assessed value is calculated by multiplying the actual value by the statutory assessment rate of 29 percent.

### **Valuation of Forest Land**

In 1990, new legislation amended the definition of agricultural land to include forest lands. A summary of this inclusion can be found in the section "Agricultural Land Definition". According to the statutes, all forest land eligible for agricultural land classification will be determined by the Colorado State Forest Service, upon meeting these conditions:

- The property must be described and appear on the report submitted to the Assessor by the Colorado State Forest Service on March 1.
- The property cannot already be classified as a farm or ranch under the statutory definitions of a farm or ranch.
- A forest management plan must have been prepared for the property.
- The land must produce tangible wood products that originate from the productivity of the land for the primary purpose of obtaining a monetary profit.

Forest land which has been designated as agricultural land is classified and valued the same as comparable surrounding agricultural land. If there is no agricultural land surrounding a forest land parcel, the Soil Conservation Service soil classification for the

parcel is determined and valued according to similar soil types.

### **Other Agricultural Property**

Agricultural property (agribusiness) that does not meet the definition of farm, ranch, or forest land is valued according to its use on the assessment date. The market approach is generally used to determine the value. This approach uses sales of similar properties to arrive at the estimate of value. Other agricultural property may include (but is not limited to) dairies, feedlots, hog farms, greenhouses, fur-bearing animal farms, apiaries, and mushroom farms.

### **Personal Property**

Agricultural equipment is exempt from property taxation if it is used on the farm or ranch for planting, growing and harvesting agricultural products or for raising or breeding livestock for the primary purpose of obtaining a monetary profit. Other personal property such as livestock, livestock products, agricultural products, and supplies are also exempt from property taxation.

### **Valuation of Agricultural Buildings:**

- Level of Value - Real property is reappraised by the Assessor's office each odd numbered year. The value determined by the Assessor for the year of reappraisal is generally used for the intervening year also. The actual value of real property is based on its value as of the appraisal date that is June 30 of the year prior to the reappraisal year. Currently June 30, 2004 is the appraisal date for valuation for tax years 2005 and 2006.
- The Residence - Residences (homes) on farm, ranch or forest lands are valued using only the market approach to value. The market approach compares sales of similar properties and adjusts for the differences to arrive at the market estimate of actual value. Residential real property is assessed at a percentage of its actual value. This assessment percentage is determined by the Colorado legislature based on a study conducted by the Division of Property Taxation.

### **Agricultural Buildings and Improvements**

Agricultural buildings and improvements are valued using the appropriate consideration of the three approaches to value: cost, market and income. The market approach was discussed in the previous section.

1. The cost approach estimates the replacement cost of the building and deducts its accrued depreciation to arrive at the cost estimate of actual value.
2. The income approach capitalizes the income stream produced by the improvements into a value estimate.

To calculate the assessed value of the agricultural buildings, the actual value is multiplied by the statutory assessment percentage of 29 percent.

### **Applying for Agricultural Classification**

If you believe your property is incorrectly classified and should be classified as agricultural property, you may complete an Agricultural Land Classification Questionnaire. Attach supporting documentation, and mail to the Moffat County Assessor; 221 W. Victory Way, Ste. 240, Craig, CO 81625. All information supplied is treated as confidential information. In order to make an informed decision on the proper classification, all information will be analyzed but the classification of your property will not be based solely on the information you supply.