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# AGRICULTURAL USE-VALUE TAXATION IN NORTH CAROLINA, 1974 AND 1975

E. C. PASOUR, JR.
LEON E. DANIELSON

ECONOMICS INFORMATION REPORT NO. 43
DEPARTMENT OF ECONOMICS AND BUSINESS
NORTH CAROLINA STATE UNIVERSITY AT RALEIGH
EIR 43 OCTOBER 1975

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Economics Information Report No. 43
Department of Economics and Business
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October 1975

ABSTRACT

The 1973 North Carolina General Assembly enacted legislation providing for differential assessment of qualifying agricultural, horticultural, and forestry lands. This use-value taxation legislation provides for qualifying land to be assessed for property tax purposes on the basis of its value in its present agricultural, horticultural or forestry use instead of at its market value. This report summarizes both the basic provisions of the farmland use-value legislation and the results of the Act in 1974 along with partial results in 1975.

Data on participation under the use-value legislation were obtained from individual counties by the North Carolina Department of Revenue. Data were obtained concerning both use-value schedules and on applications made and approved for use-value taxation.

Fewer than one-fourth of the counties approved applications for farmland use-value taxation in 1974, and taxes were deferred on only about 4,500 acres of cropland in all of North Carolina. Participation is expected to increase throughout North Carolina in the coming years as counties reach the year in which a countywide revaluation is required.

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ACKNOWLEDGMENTS

The authors are indebted to Mr. D. R. Holbrook and his staff of the Ad Valorem Tax Division of the North Carolina Department of Revenue. W. L. Conley and Kenneth W. Voss were especially helpful in obtaining the data from individual counties which were used in preparing this report. Helpful suggestions in preparing this report were also received from D. N. Hyman, D. F. Neuman, and H. L. Liner.

# AGRICULTURAL USE-VALUE TAXATION IN NORTH CAROLINA, 1974 AND 1975

## INTRODUCTION

Agricultural real estate prices in North Carolina have increased rapidly in recent years. Between March 1970 and March 1973, the average per acre value of North Carolina farm real estate rose from $333 to $483, an increase of over 45 percent during that three-year period (U. S. Department of Agriculture, 1973a). Two major factors causing this rapid increase were increases in farm product prices and the increasing influence of urbanization in agricultural areas. Farmland values have risen most dramatically in those areas adjacent to rapidly growing urban centers.

Increases in farm real estate values often result in higher property taxes to landowners. In North Carolina the average tax levied on farm real estate in 1950 was $.51 per acre. By 1965 the average tax per acre was $1.35 and by 1970 it had reached $1.79 (U. S. Department of Agriculture, 1973b).

If property taxes are levied on land on the basis of its market value, the annual property tax bill may exceed the net cash returns from the land in agricultural production. In such cases, payment of taxes may cause a cash flow problem even though the wealth of the property owner is increasing proportionately to the rise in the value of his property.

The large increase in taxes on agricultural properties, especially for land near urban areas, led to legislative action by the 1973 North Carolina General Assembly for differential assessment of qualifying agricultural, forestry and horticultural lands (N. C. Senate, 1973). This "use-value" taxation (effective January 1, 1974) provides for

qualifying land to be assessed for property tax purposes on the basis of its value in its present agricultural[1] use instead of its market value.

Two reasons for legislation on agricultural use-value taxation are commonly cited: (1) that as a land-use planning measure, it will preserve farm and open space land, and (2) that it will provide tax relief for qualifying property owners.

To the extent that high taxes cause farmland to be sold for urban or residential purposes, reduced property taxes tends to preserve farmland for agriculture and open space. However, because profit from the conversion of land from agricultural to urban uses is typically high compared to taxes paid (and hence is more apt to be the reason for land sale than is high taxes), the differential assessment act in North Carolina is more accurately described as a tax relief act than as a farmland preservation act.

Farmland differential assessment acts have now been passed by 31 of the 50 states in the United States (Hady and Sibold, 1974). Provisions of these acts, as well as their purposes, vary considerably. So also has the success with which desired objectives of the legislation have been attained.

The North Carolina Farmland Taxation Act has now been in effect through one complete tax year. How effective has it been? What effect did this legislation have on property taxes paid by the owners of qualifying property in 1974? To what extent are owners of farmland participating in the program and how has participation varied from county-to-county? Will future results vary from the experiences of this first year?[2] To address these and other questions the objectives of this report are:

(1) To summarize the basic provisions of the agricultural use-value legislation,

(2) to analyze the land-use value schedules developed by each county in implementing this legislation,

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[1]Throughout this report "agricultural use" or "agricultural land" should be interpreted to include agricultural, horticultural and forestry categories as defined in the Act.

[2]The potential impact of the Act is analyzed in another recent report (Pasour, Danielson, Liner, 1974).

(3) to summarize the results of the legislation in 1974 and 1975, and

(4) to draw implications from the first year's experience regarding expected future effects of the legislation.

The data on county land-use schedules and participation under the use-value act were obtained from the Ad Valorem Tax Division of the North Carolina Department of Revenue. The tax supervisor in each county was contacted and asked to provide information on the number of applications made and approved for use-value assessment along with data on appraised value and use-value appraisals for qualifying properties approved for use-value assessment.

Data were obtained from 92 of the 100 counties in North Carolina.[3] Many of these counties had no applications for use-value assessment under the law in 1974 or 1975 and did not develop land-use schedules.

[3]The counties not responding to the survey were Buncombe, Caldwell, Bladen, Brunswick, Carteret, Pamlico, Washington and Warren.

## AGRICULTURAL USE-VALUE TAXATION IN NORTH CAROLINA

The 1973 North Carolina use-value legislation provides for the taxation of certain agricultural, horticultural, and forestry lands on the basis of present use value instead of market value. However, several conditions must be met in order for land to qualify and be taxed on the basis of agricultural use value instead of market value. These conditions following amendments by the 1975 North Carolina General Assembly are described below.

### Ownership

Agricultural, forest, or horticultural land must be "individually owned." Individual ownership is defined to be a natural person (or persons) or a corporation having as its principal business the commercial production of agricultural, forestry, or horticultural products under a sound management program. The owners of all shares of such a corporation must be natural persons actively engaged in these activities or the spouse, siblings, or parents of such persons. Agricultural, forest and horticultural land means land and improvements.

The owner's place of residence must be included on the land, or the land must have been owned by the present owner (or his children or by one or both parents) for the four years immediately preceding January 1 of the year for which application is made for taxation on the basis of present farmland use value. If owned by a corporation, the property must have been owned by the corporation or by one of its principal shareholders for a similar four-year period prior to application.

### Size and Gross Income

Qualifying agricultural (or horticultural) land must consist of at least 10 acres and have a gross agricultural (or horticultural) income averaging $1,000 per year for the three years just prior to the year in

which application is made for present use-value taxation. Forest land must consist of 20 acres or more unless it is included in a qualifying tract of agricultural land. Gross income conditions do not apply to forest land. All qualifying lands must be engaged in commercial production "under a sound management program." A sound management program is defined to be a program of production designed to obtain the greatest net return from the land consistent with its conservation and long-term improvement.

## Procedure for Application

Application for use-value taxation must be filed during the regular (or extended) listing period.[4] The Department of Revenue is charged with preparing rules, regulations, and standards for use by county tax supervisors to insure reasonable uniformity among counties in making appraisals. Each county must have an agricultural use-value schedule indicating the use values for different kinds of land. The tax supervisor of each county is required to prepare a new present use-value schedule in 1976. If the local tax supervisor approves the application, the property is appraised on the basis of its present agricultural use value using the county use-value schedule.[5] This appraisal, except for valuation changes made necessary because of a change in use, acreage or ownership of qualifying property, then continues in effect until the county's next general reappraisal (which, by law, must occur at least as often as once every 8 years). Once approved, no further applications need be made until the next general county-wide revaluation. At that time, new applications must be filed for all properties.

---

[4]If the property does not meet the necessary requirements in the opinion of the tax supervisor, he shall deny the application. Such decisions may be appealed to the County Board of Equalization and Review or, if that is not in session, to the Board of County Commissioners. Decisions of the County Board may be appealed to the Property Tax Commission. The property owner who is not satisfied with the agricultural present use value as determined by the tax supervisor may appeal the present-use appraised value through the same appeal procedure indicated above. (N. C. Department of Revenue, 1974, p. 7.)

[5]Improvements located on qualifying land are appraised according to the standards used in appraising similar improvements in the county.

## Loss of Eligibility and Deferred Taxes

The purpose of this special assessment act is to provide tax relief to "bona fide" farmers, horticulturists and owners of forest lands. It is not designed to give tax relief to property owners who are holding land solely for "speculative gains." Therefore, a roll-back provision is included which will require payment of part or all of the deferred taxes if and when the land loses its eligibility for the farmland use-value tax treatment. Taxes on qualifying lands (following application and approval) are computed on both the agricultural use value and the assessed market value of the land. Deferred taxes are computed as the difference between the two, and a record of the deferred taxes is maintained by the local taxing unit.

If the owner conveys the property to anyone other than a spouse, child or sibling (or otherwise loses eligibility) in a particular year, taxes for the fiscal year that begins in the calendar year in which a disqualification occurs will be computed on the basis of market value.[6] In addition, a roll-back provision requires that deferred taxes plus interest be paid immediately for the preceding three fiscal years. If only part of a qualifying tract of land loses its eligibility, deferred taxes plus interest must be paid on that part of the land.[7]

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[6] Deferred taxes also become due if ownership of the property passes to anyone other than such an enumerated family member by will or intestacy. Deferred taxes become payable in the case of corporately owned qualifying land when ownership to the property passes to anyone other than its principal shareholders.

[7] A participating property owner must notify the tax supervisor following a change in use of land which disqualifies the land from receiving agricultural use-value taxation. Failure to properly notify the tax supervisor in such cases will subject the property owner to a 10-percent penalty of the total amount of deferred taxes plus interest for each listing period in which there is a failure to report.

## COUNTY AGRICULTURAL USE-VALUE SCHEDULES

The key component of the differential assessment program is the agricultural use-value schedule. It is this schedule that a qualifying property owner compares with the current assessed tax value of his property (based upon fair market value) to help decide which taxation plan will be best for him. If land values in the county's agricultural use-value schedule are equal to or exceed current tax assessments, there is no incentive to participate in the use-value assessment program.

In a county containing or located near one or more major urban areas, there is likely to be a significant amount of nonfarm influence on agricultural land prices. In such cases, market value of agricultural land is likely to exceed its "use value" in agriculture. In this case, if farmland has been appraised for tax purposes on the basis of its market value, there is the potential for a significant reduction in assessed value and, hence, reduction in property taxes from "use-value" taxation of agricultural and other qualifying lands.

If, on the other hand, farm property has been underappraised for tax purposes relative to its market value, the result in terms of property taxes due may have been tantamount to a formal policy of "use-value" taxation. In cases where a de facto policy of use-value taxation already exists for real farm property, the potential reduction in property taxes due to the 1973 N. C. legislation is small. At any rate, in order for a property owner to participate in or even consider participating in the agricultural use-value assessment program the county must have an agricultural use-value schedule.

From the 92 counties responding to the use-value questionnaire, county agricultural use-value schedules for 1974 and/or 1975 were obtained

from 63 counties (Figure 1). Some counties in North Carolina have not adopted (as of July 1975) a use-value schedule.[8]

The agricultural land use-value schedules obtained in the survey reflect the value of property as of January 1, 1975, based on its value as it was currently being operated under a sound management program. In some cases, both market value and net income approaches were used in development of the use-value schedules. Specific variables considered in estimating use value were numerous, including soil type, crops produced, local product price, value of allotments, type of access road, etc. The method of determining and justifying use values for various land uses varied from county-to-county, and all of the above variables were not considered in every county. Information obtained from some counties contained only the use values for land used for different agricultural purposes without supporting data.

All counties with agricultural use-value schedules had use values for cropland and woodland. Some counties also had use values for pasture, horticultural crops, wasteland, and tobacco and peanut allotment values.

The major crops produced in the county were used in determining the agricultural values. For each crop (or land use) or for an average crop configuration in the county, the net income per acre as estimated from agricultural statistics and Agricultural Extension Service data was capitalized to obtain the agricultural use value. Six percent was the most commonly used capitalization rate, although the rate varied between counties from 6 percent to 10 percent.[9] In some cases, market sales data for alternative classes of land were used to adjust the crop-by-crop use value in developing the overall use-value schedule. A summary of the use values for various land categories is presented on a county-by-county basis in Table 1. A brief description of the data on a land category basis follows.

---

[8]The 1975 General Assembly of North Carolina changed certain parts of the Use-Value Assessment Law so that all counties will have to develop a new schedule effective January 1, 1976.

[9]If net income per acre per year for corn is estimated to be $30, a capitalization rate of 6 percent implies a use value of $500 ($30 ÷ .06).

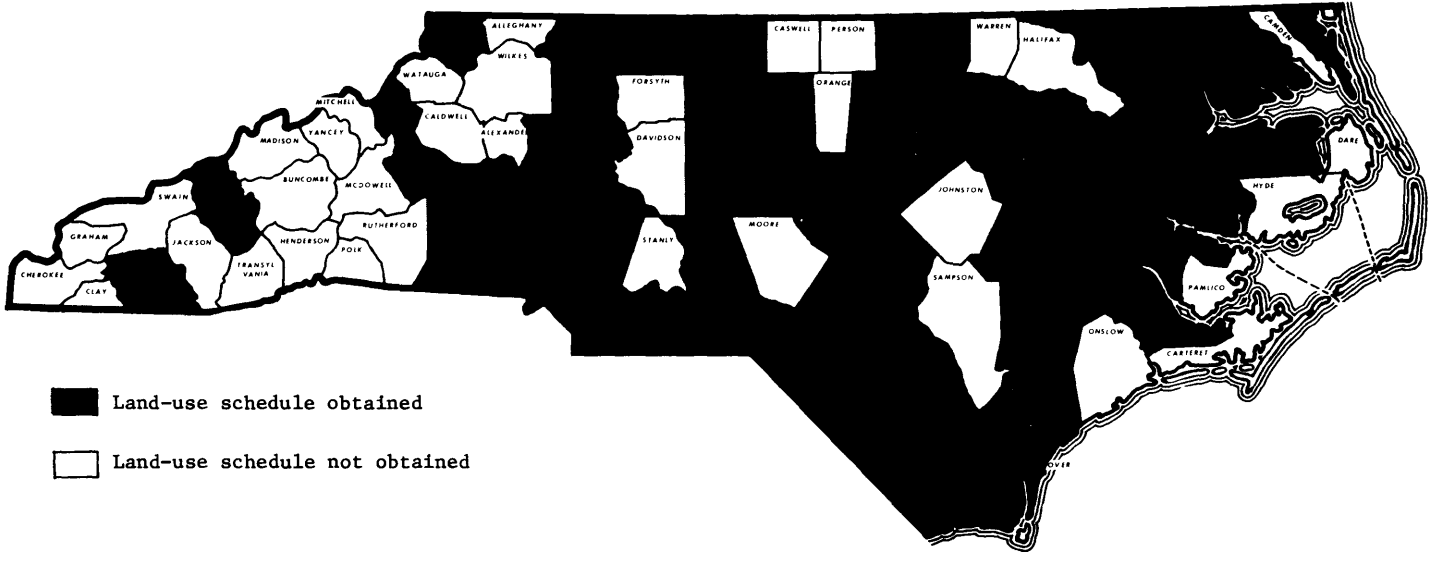


Figure 1. Counties for which land-use schedules were obtained

Table 1. Summary of use-value schedules for North Carolina counties, 1974

| County | Price Range | | | | | Allotted Crops | | | Other[a] |
|---|---|---|---|---|---|---|---|---|---|
| | Open & cultivated | Pasture | Woodland & forestry | Waste-land | Horti-culture | Tobacco | Peanuts | Ponds | |
| | $/acre | $/acre | $/acre | $/acre | $/acre | $/lb. or acre | $/acre | $/acre | $/acre |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
| Alamance | 160-855 | 125-500 | 120-165 | 75-100 | | .70-.90 | | | |
| Anson | 200-400 | | 150[b] | | | | | | |
| Ashe | 400-700 | | 200-250 | | | 1.25 | | | |
| Avery | 125-550 | 125-550 | 90-450 | 40-250 | | | | | |
| Beaufort | 225-725[c] | | 40-100 | 30 | | 1.50 | | | |
| Bertie | 260-420 | 195-315 | 205-280 | 35 | | | | | |
| Bladen | 140-550 | 140-550 | 80-200 | | | 1.00 | | | |
| Brunswick | 450-1120 | 240-640 | 200-300 | 50-200 | | | | | |
| Burke | 225-550 | | 150-200 | | | | | | |
| Cabarrus | 300-600 | | 200 | | | | | d | |
| Catawba | 180-1025 | 135-575 | 160-180 | | | | | | |
| Chatham | 250-600 | 240-650 | 80-350 | | | | | | |
| Chowan | 150-400 | 75-300 | 40-400 | 30 | | .60 | 300 | | |
| Cleveland | 220-770 | | 150-350 | 40-140 | | | | | e |
| Columbus | 100-300[f] | | 100-125 | | | | | | |
| Craven | 100-300 | 100-250 | 20-125 | | | | | | |
| Cumberland | 260-390 | 185-250 | 100-165 | 40 | 285-390 | | | | |
| Currituck | 164-918 | | 60-720 | 60 | 1000 | | | | |
| Davie | 325-475 | | 200 | | | .70 | | | |
| Duplin | 210-725 | | 100 | | | 1.70-3.50 | | | |
| Durham | 200-1000 | 200-600 | 200 | | | .74 | | d | |
| Edgecombe | 330-410 | 210 | 200 | | | 1.25 | 500 | d | |
| Franklin | 250-530 | | 100-200 | | | 2000/acre | | | |
| Gaston | 90-1045 | 150-600 | 185-200 | | | | | | |

Table 1 (continued)

| County | Price Range | | | | | Allotted Crops | | | Other[a] |
|---|---|---|---|---|---|---|---|---|---|
| | Open & cultivated | Pasture | Woodland & forestry | Waste-land | Horti-cultural | Tobacco | Peanuts | Ponds | |
| | $/acre | $/acre | $/acre | $/acre | $/acre | $/lb. or acre | $/acre | $/acre | $/acre |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
| Gates | 200-435 | | 100-150 | | | 5000/acre | 1000 | | |
| Granville | 75-450 | 75-225 | 40-225 | 15-40 | | | | | |
| Greene | 110-330 | 70-275 | 50-130 | 30 | | .60 | | | |
| Guilford | 465-635 | | 200-250 | | | 1.00 | | | |
| Harnett | 350-430 | | 250 | 50 | | 1.00 | | | |
| Haywood | 200-1000 | 200-1000 | 80-200 | | | | | | g |
| Hertford | 125-375 | 50-310 | 50-125 | | | | | | |
| Hoke | 120-350 | 120-250 | 90-150 | | 120-300 | .60 | | | |
| Iredell | 90-1045 | 150-600 | 185-200 | | 90-1045 | | | | |
| Jones | 131-1026 | | 90-150 | 60 | | 1.00 | | | |
| Lee | 250-1100 | | 185-200 | | | | | | |
| Lenoir | 400-600 | | 150 | | | 1.00 | | | |
| Lincoln | 180-940 | 133-535 | 185-200 | | | | | | |
| Macon | 200-400 | | 120-200 | | | | | | |
| Mecklenberg | 100-835 | 100-450 | 145-160 | | | | | | |
| Montgomery | 330-390 | | 210 | | | | | | |
| Nash | 225-450 | 225 | 200 | | | 1.00 | | | |
| New Hanover | 180-970 | | 185-250 | 100-150 | | | 400 | d | |
| Northhampton | 100-300 | 40-250 | 40-400 | 25 | | | | | |
| Pasquotank | 400-1000 | | 80-200 | 50-70 | | | | | |
| Pender | 250-560 | | 90-190 | 80 | | | | | |
| Perquimans | 300-800 | | 80-160 | 30 | | | | | |
| Pitt | 414-1943 | | 75-300 | | | | | | |
| Randolph | 400[h] | | 175[i] | 100 | 400 | .05 | | | |

Table 1 (continued)

| County | Price Range | | | | | Allotted Crops | | | Other[a] |
|---|---|---|---|---|---|---|---|---|---|
| | Open & cultivated | Pasture | Woodland & forestry | Waste-land | Horti-cultural | Tobacco | Peanuts | Ponds | |
| | $/acre | $/acre | $/acre | $/acre | $/acre | $/lb. or acre | $/acre | $/acre | $/acre |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
| Richmond | 250 | 250 | 150[b] | | | | | | |
| Robeson | 225-455 | | 120-250 | | 165-350 | | | | |
| Rockingham | 300-390 | 200-270 | 120-180 | | | | | | |
| Rowan | 425-575 | | 200 | | | | | | |
| Scotland | 75-300 | 50-175 | 30-400[b] | 20 | | | | | |
| Stokes | 500-560 | 460-500 | 150-185 | | | 1150-1190/acre | | | |
| Surry | 230-900 | 150-500 | 75-400 | | | | | | |
| Tyrrell | 235-895 | 150-500 | 75-400 | 25 | | | | | |
| Union | 48-1388 | 150-600 | 185-200 | | 194-36,000 | | | | |
| Vance | 325-440 | | 200 | 50 | | | | | |
| Wake | 100-550 | | 100-200 | | | .45 | | 550 | 750/1500 |
| Washington | 195-475 | | 100-150 | | | 5,000/acre | 1000 | | |
| Wayne | 275-460 | | 200 | | | 1.25 | | d | |
| Wilson | 325-475 | 150-300 | 150-200 | | | .80 | | | 4000[j] |
| Yadkin | 550-1260 | 550 | 400 | 50 | | 2200/acre | | | |

a Refer to individual footnotes for category.

b Plus value of timber.

c Cleared land.

d Valued same as adjoining land.

e Suitable for cotton.

f Rates subject to a $10 to $200 increase per acre for land use and allotments.

g Orchards change land values to next higher class.

h Minus up to 20% for topology.

i Plus up to $100 for growing timber.

j Homesites.

## Cropland

Most counties included a range in use value for cropland depending upon soil class and/or type and at times on crop grown. In estimating agricultural use value for these soil types, crops grown, the ratio of gross to net value of products sold, product yield, product price and other factors were incorporated. Table 1, column 2 and Figure 2 show the range in use value of open and cultivated land. In some counties, the range in value for cultivated land was quite large. In Iredell County, for example, agricultural use values for cultivated land ranged from $90 to $1,045 per acre. On the other hand, the range by soil type in several counties is under $100. In addition to the within-county variation the use value for cropland varies greatly between counties. This variation does not appear to have a regional basis.

## Woodland and Forestry

The range in use values for woodland[10] is shown in Table 1, column 4 and in Figure 3. Most of the values were in the range from $100 to $200 per acre. The highest use value for woodland was $720 per acre in Currituck County. The "best wooded land" located on paved U. S. and N. C. roads in Avery County was $450 per acre. By contrast, the use value of the best wooded land on an improved gravel road in Avery County was only $200 per acre.

## Pasture

Many counties having agricultural use-value schedules had no separate classification for pasture as shown in Table 1, column 3. In some cases, the use value was considered to be for improved permanent pasture seeded on tillable land. In other cases, the use value refers to native pasture land. This explains at least some of the between-county variation.

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[10] Forest land prior to 1973 was legally appraised on the same basis as other real estate in North Carolina except that a ten-year exemption was provided for planted trees in artificially established tree plantations. Legislation enacted in 1973 provides for all forest growth to be removed from the tax base at the time of each county's revaluation (Institute of Government, 1973).

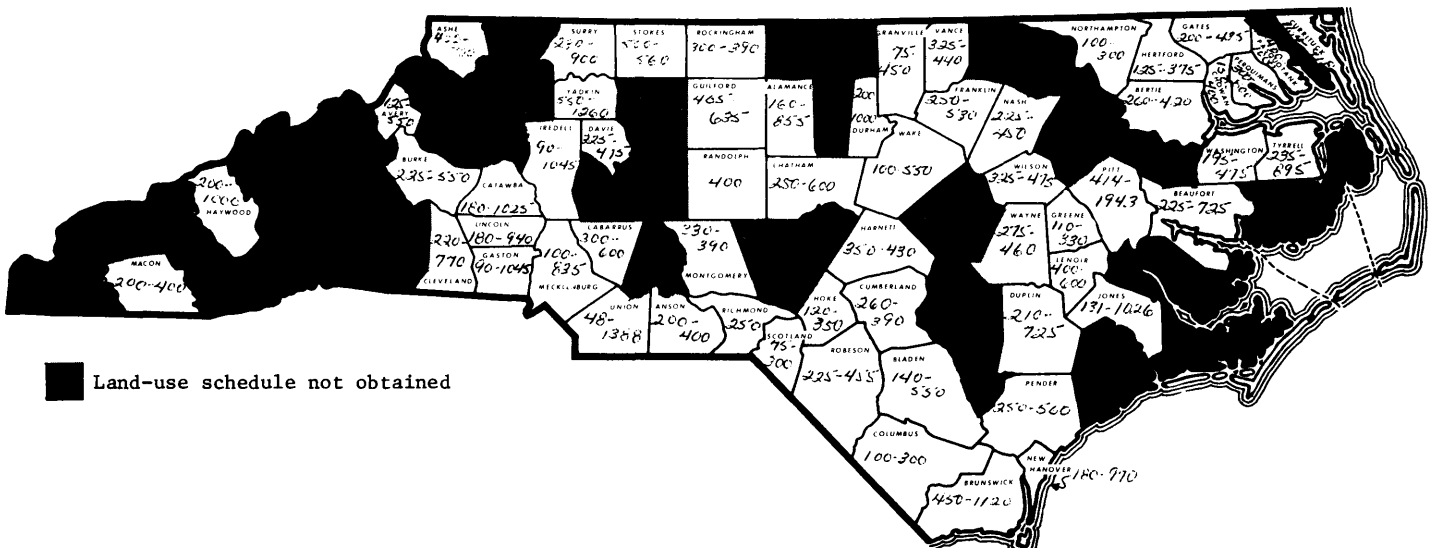



Figure 2. Range in agricultural use values for cultivated land, dollars per acre

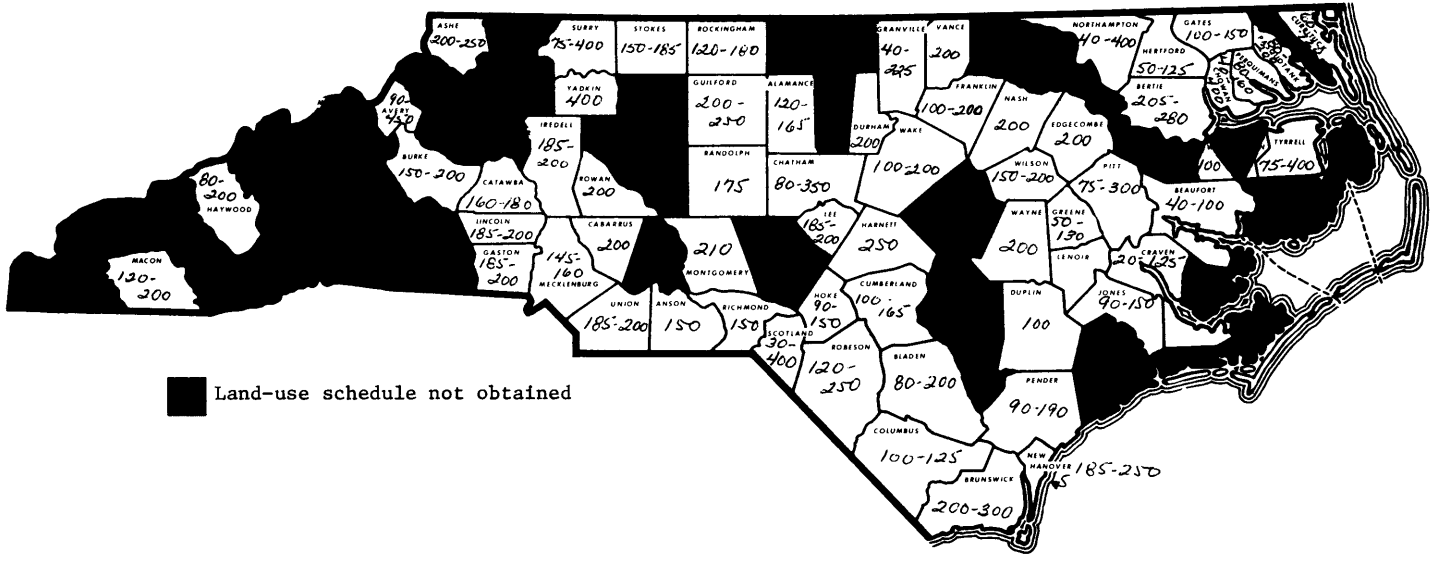



Figure 3. Range in agricultural use values for woodland and forestry, dollars per acre

## Horticultural Crops

Use values for horticultural land were presented for only three counties -- Cumberland, Robeson and Union (Table 1, column 6). The use values for horticultural crops in Cumberland and Robeson counties were similar to the use values for cultivated land. In Union County, however, the use value for horticultural land ranged up to $36,000 per acre for "very good" soil in strawberries.

## Wasteland

Only a few counties reported use values for wasteland. The range in use values for wasteland ranged from $20 to $200 per acre with the value reported less than $100 per acre in most counties (Table 1, column 5).

Brunswick County had the highest value for wasteland. The use value for wasteland there ranged from $50 to $200 per acre. If a discount rate of 6 percent was used in obtaining use values, a use value of $200 per acre implies an annual return of $12.00 (.06 x $200). It is not obvious why wasteland should have a use value greater than zero. If land is truly submarginal, then its use value should be zero.

## Tobacco and Peanut Allotments

Many counties did not have a separate use value for tobacco and/or peanut allotments as indicated in Table 1, columns 7 and 8, and in Figure 4. The use values for peanut allotments are on a per acre basis. The use values for tobacco allotments were sometimes presented as dollars per pound and sometimes as dollars per acre.

The agricultural use value of allotments varied widely from county-to-county for both peanuts and tobacco. The agricultural use value of peanut allotment varied from $300 per acre in Nash County to $1,000 per acre in Gates and Washington counties.

The inter-county variation in the agriculture use value of tobacco allotments was even more striking. Many counties which produce tobacco did not include a value for tobacco allotment. The variation in use values for those counties including a use value for tobacco allotment on a per pound basis ranged from $.05 per pound in Randolph County to a

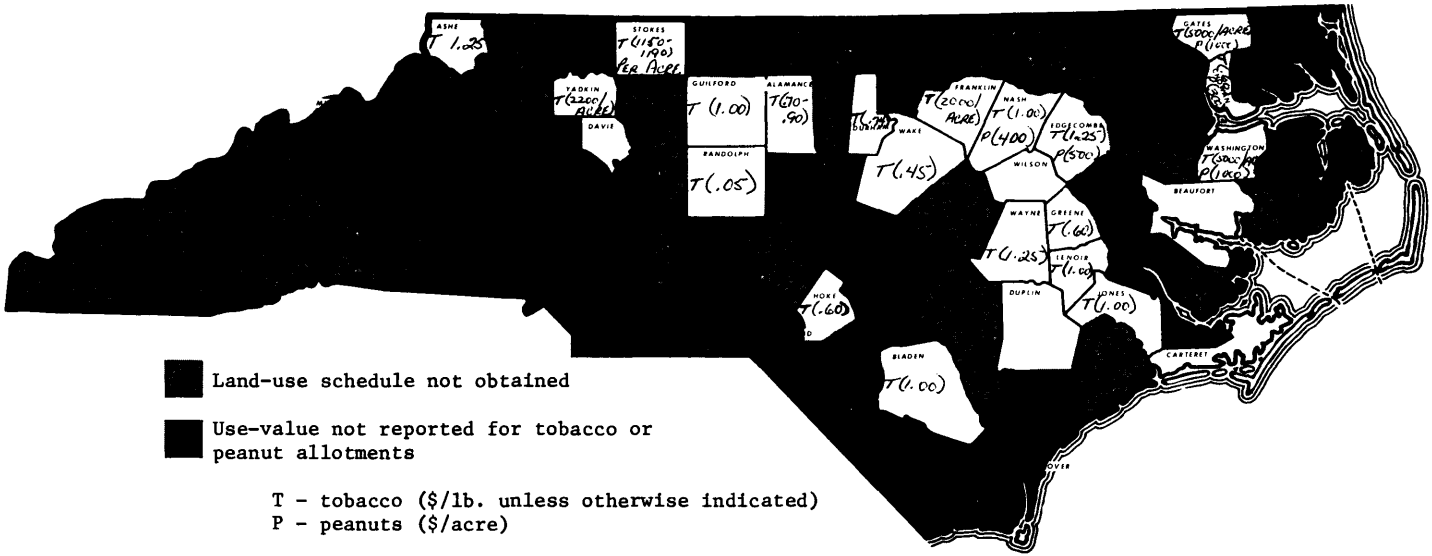



Figure 4. Range in agricultural use values for tobacco (dollars/lb. or acre) and peanuts (dollars/acre) allotments

high of $1.70-$3.50 per pound in Duplin County depending upon soil type. The variation in use value for tobacco allotment where cited on a per acre basis ranged from less than $2,000 per acre in Yadkin County to $5,000 per acre in Gates and Washington counties.

## RESULTS OF LEGISLATION

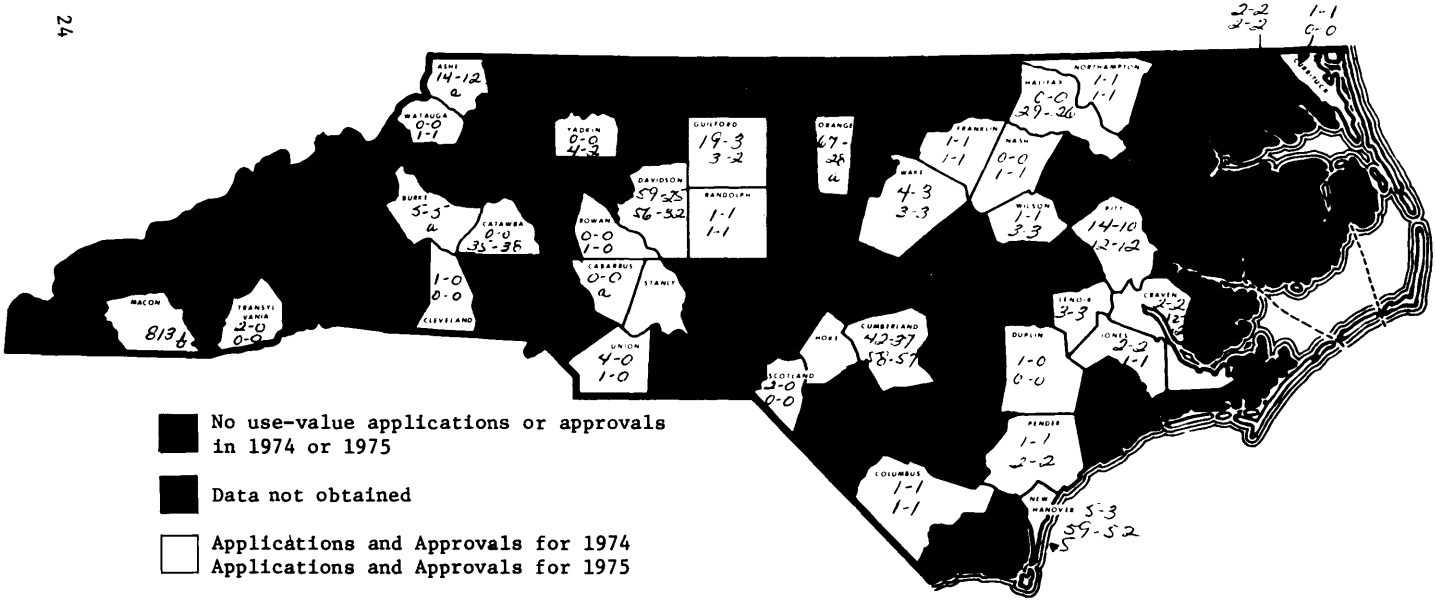
The 1973 North Carolina agricultural use-value legislation became effective January 1, 1974. In order for agricultural land to be considered for use-value assessment, application must be made during the regular tax listing period. The county tax rate for a particular year is usually established during the summer months. The data summarized in this study were obtained during March and April of 1975. Thus, complete information about the use and effect of the tax are available only for 1974. Applications for 1975 had been made at the time the data were obtained from the counties, but the tax rate for 1975 in some cases had not been established. Thus, while the number of applicants in 1975 is generally known as well as the market and use-value appraisals for the land involved, the amount of deferred tax for 1975 cannot be determined until tax rate data are available for 1975.

### Applications and Approvals

There has been relatively little use of the North Carolina agricultural use-value assessment law to date (Figure 5). Among the counties for which data are available, 27 received applications in 1974 with 21 of these counties approving at least one application.

In 1974, most of the applications and approvals were concentrated in three counties (Cumberland, Davidson and Orange). In 1975, five counties were added to this "high-activity" list -- Hoke, New Hanover, Catawba, Halifax and Macon -- with the latter three not having any applications in 1974.

In 1974 the total number of applications from the 92 responding counties across the state was 261 with 144 being approved. Quantitative comparisons with 1975 cannot be made on the basis of totals because of




No use-value applications or approvals in 1974 or 1975

Data not obtained

Applications and Approvals for 1974
Applications and Approvals for 1975

a Data not available for 1975.
b Data not available.

Figure 5. Use-value tax applications and approvals for 1974 and 1975

the incomplete data for some counties.[11] However, it is clear that the number of applicants will be greater in 1975 during the second year of the use-value assessment program.

## Cropland Under Agricultural Use-Value Assessment

The number of acres of cropland assessed and taxed on the basis of agricultural use value instead of market value in 1974 and 1975 is shown in Figure 6. Taxes were deferred on a total of slightly over 4,500 acres of cropland across the state in 1974,[12] with no single county having taxes deferred on more than 1,500 acres. When compared with the 4.5 million acres of cropland harvested in North Carolina in 1973 (N. C. Department of Agriculture, 1974), much of which could likely qualify for agricultural use-value taxation, the meager participation in the program is even more evident.

Cropland acreage receiving use-value assessment increased substantially reflecting the significant expansion of applications and approvals in 1975 compared to 1974. In Hoke County alone, 3,600 acres of cropland were added in 1975 while 7,500 acres of cropland (including 158 acres in orchards) were added in Macon County.

## Forest Land Under Agricultural Use-Value Assessment

The agricultural use-value law was used by owners of forest lands in few counties of North Carolina in 1974 or 1975 (Figure 7). However, there were significant amounts of forest lands approved for use-value assessment in New Hanover and Macon counties in 1975.

## Pasture Land Under Agricultural Use-Value Assessment

No significant amount of pasture land was approved for use-value assessment in 1974. In 1975 there was little increase except in Macon

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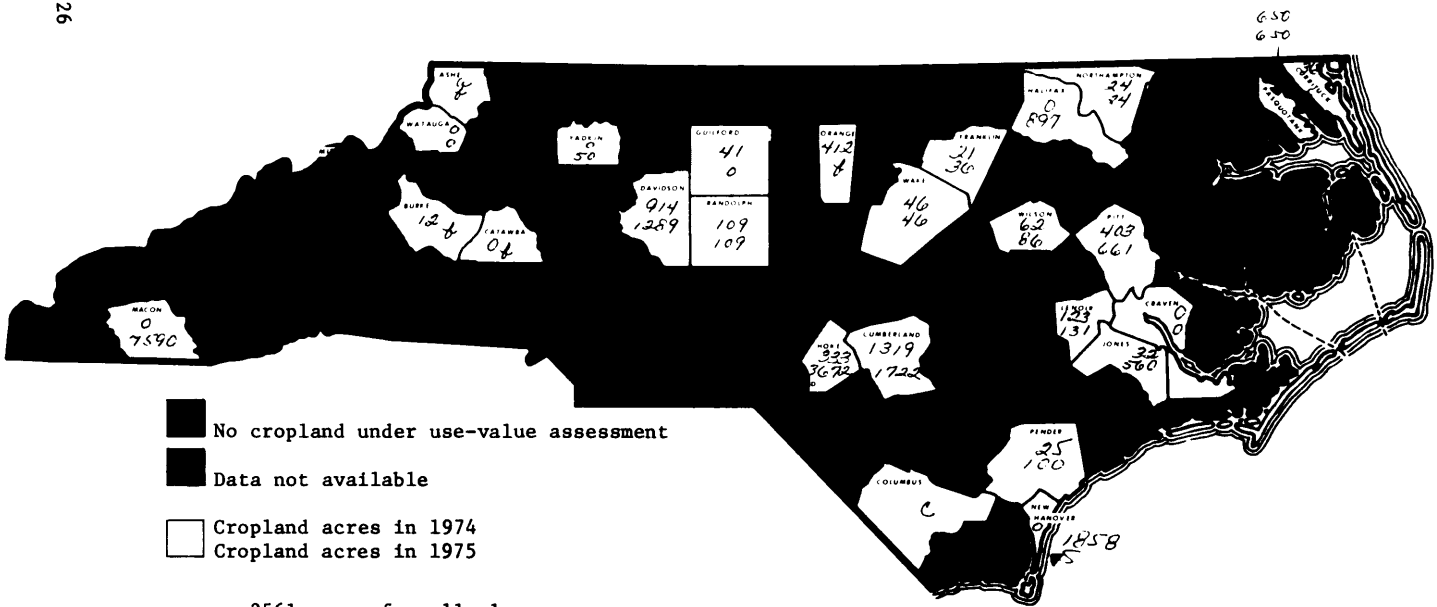
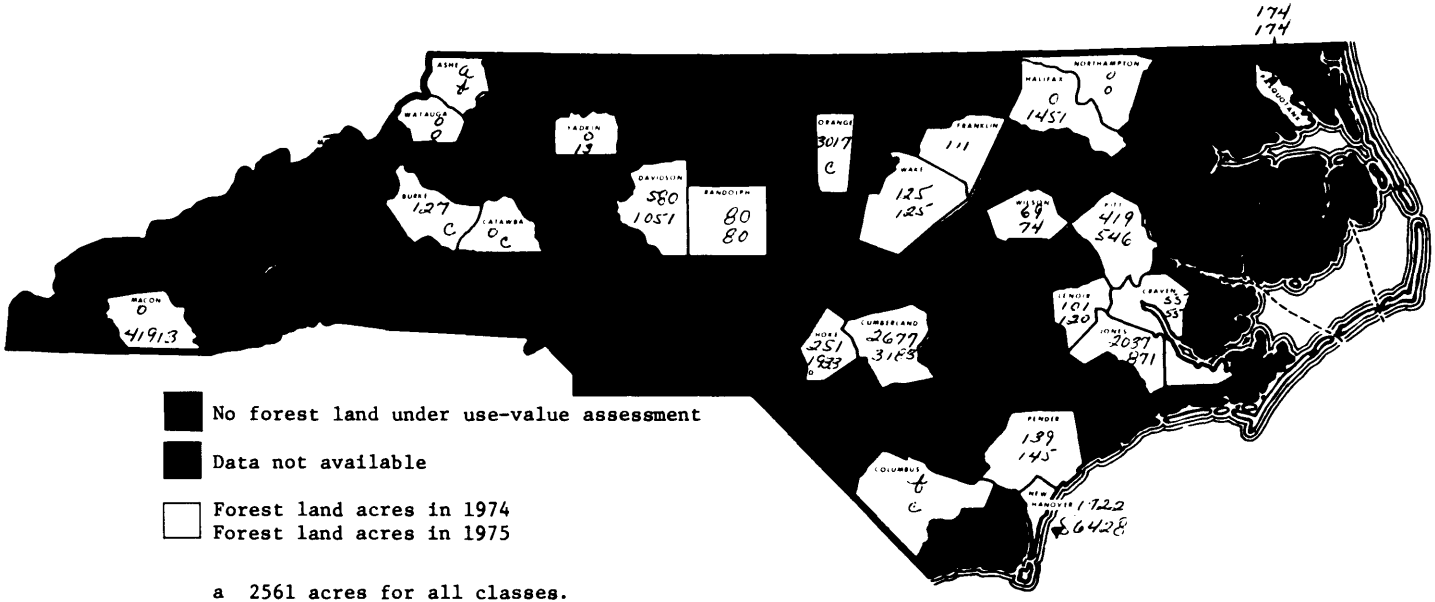
[11] There were several counties for which data were obtained in 1974 but for which data were not yet available in 1975.

[12] Plus a fraction of the 2,561 acres (for all classes) receiving use-value assessment in Ashe County.




a 2561 acres for all classes.
b Final data not available for 1975.
c Data not reported for 1974 or 1975.

Figure 6. Number of cropland acres under use-value assessment in 1974 and 1975




a 2561 acres for all classes.
b 1974 data not reported.
c 1975 data not available.

Figure 7. Number of forest land acres under use-value assessment in 1974 and 1975

County where the acreage of pasture land approved for use-value assessment rose from zero in 1974 to 6,245 acres.

## Wasteland Under Agricultural Use-Value Assessment

Very small smounts of wasteland were granted use-value assessment in 1974 or 1975.

## Deferred Taxes

The effect of agricultural use-value assessment on property tax collections was minor in 1974 (Figure 8). Property tax receipts were reduced by more than $2,000 in only two counties -- Pitt and Cumberland counties. Thus, the effect on the tax base was minor since the reduced assessments and consequent reduction in property taxes did not affect an appreciable portion of the land in any county granting use-value assessment for agricultural land.

The amount of "deferred taxes" for 1975 was not available when the data for this study were obtained since (as indicated above) the tax rates for a given year are not typically established until around mid-year. The amount of deferred taxes will be somewhat larger in 1975 in several counties since substantial amounts of land were approved for agricultural use-value assessment in 1975.

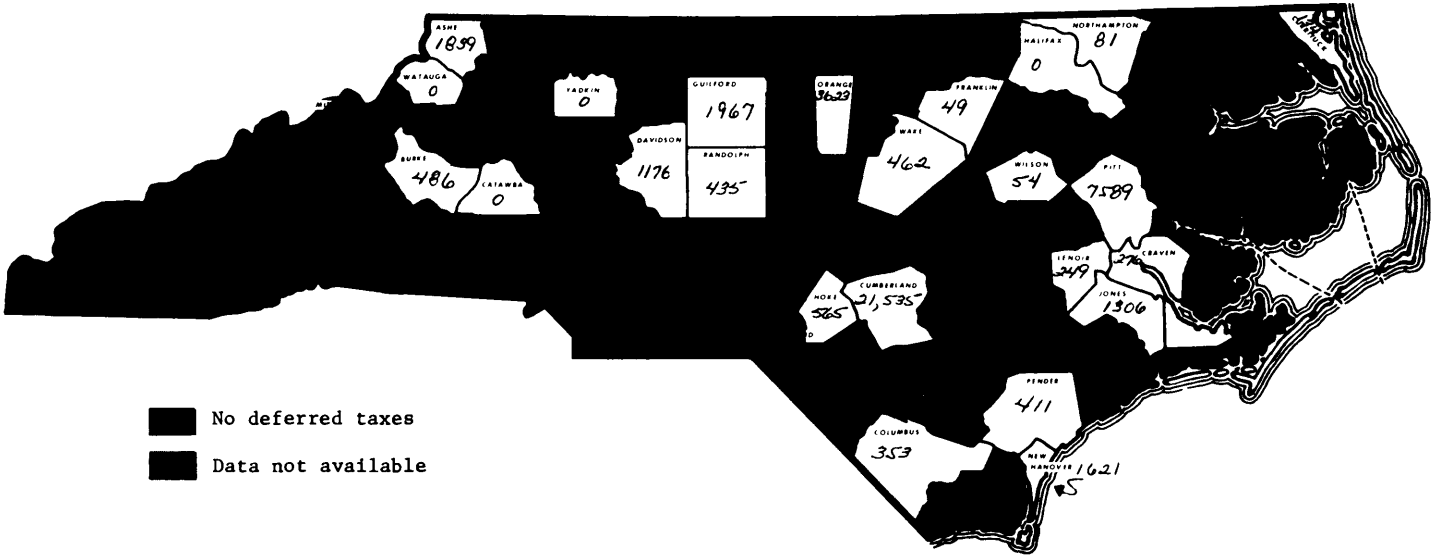



Figure 8. Total amount of deferred tax for 1974, in dollars

## IMPLICATIONS

As indicated earlier, a key factor determining the degree of participation in the agricultural use-value assessment program is the use-value schedule. More specifically, it is the difference between the assessment for tax purposes based upon market value and the assessment based upon agricultural use-value that determines whether the potential for tax savings exists.

This report has looked primarily at the agricultural use-value schedules. Equally important are the assessment levels based upon market value. In North Carolina assessed tax values are, by and large, set for eight-year periods. In areas where real estate values are appreciating rapidly, the divergence between current market value and assessed value increases as the revaluation date nears. In such cases, when the revaluation is made, assessments based upon market value would be expected to increase substantially. If agricultural use-value schedules remain unchanged at date of revaluation, or if assessments at agricultural use values increase at a slower rate than do market value assessments, then the divergence between use-value and market value assessments will increase and there will exist greater potential for tax savings for owners of property that qualifies for agricultural use-value assessment. In the future as more counties revalue, participation in the use-value assessment program is likely to increase.

To demonstrate the rationale of this statement, consider the current revaluation (effective 1976) taking place in Wake County. Cropland and forest land were assessed at not more than $300 per acre eight year ago. Although the 1976 schedule is not complete (August 1975), newspaper reports indicate that farmland in Wake County which is significantly affected by urban influences may be assessed at $2,000-$3,000 per acre (or more). Unless land values in the Wake County agricultural use-value schedule are increased greatly following this revaluation, there will

be considerably greater incentive to participate in the use-value assessment program.

This contention is consistent with the changes that occurred in several other counties between 1974 and 1975. Major increases in program participation occurred in only five counties; Hoke, New Hanover, Catawba, Halifax and Macon. Revaluation occurred in Hoke County in 1974; the other four counties revalued property in 1975. Evidently the market value appraisals in these counties were raised relative to agricultural use value upon revaluation and, along with other factors, provided new incentives to request use-value assessment in 1975.

Table 2 summarizes the date of revaluation for each county. Only 21 counties were revalued in 1974 and 1975. By 1981 all remaining 79 counties will have been revalued since the passage of the use-value assessment act. Based upon changes that occurred in 1975, increased participation in the agricultural use-value assessment program is likely to occur in those 79 counties yet to be revalued.

Participation in the agricultural use-value assessment program during its first two years in existence has been slowed by the mere fact that it is a new program. Information concerning use-value schedules have been delayed or lacking entirely and have accentuated the general lack of awareness of the program, its provisions, and its requirements. This factor is likely to be less important in the future.

Table 2. Year of revaluation

| Counties | Year of revaluation (effective January 1) | Counties | Year of revaluation (effective January 1) |
|---|---|---|---|
| Alamance | 1977 | Henderson | 1974 |
| Alexander | 1978 | Hertford | 1979 |
| Alleghany | 1981 | Hoke | 1974 |
| Anson | 1978 | Hyde | 1981 |
| Ashe | 1974 | Iredell | 1976 |
| Avery | 1980 | Jackson | 1976 |
| Beaufort | 1978 | Johnston | 1979 |
| Bertie | 1976 | Jones | 1974 |
| Bladen | 1975 | Lee | 1980 |
| Brunswick | 1975 | Lenoir | 1981 |
| Buncombe | 1974 | Lincoln | 1976 |
| Burke | 1979 | Macon | 1975 |
| Cabarrus | 1975 | Madison | 1981 |
| Caldwell | 1981 | Martin | 1977 |
| Camden | 1980 | McDowell | 1979 |
| Carteret | 1981 | Mecklenburg | 1979 |
| Caswell | 1976 | Mitchell | 1977 |
| Catawba | 1975 | Montgomery | 1980 |
| Chatham | 1979 | Moore | 1979 |
| Cherokee | 1980 | Nash | 1977 |
| Chowan | 1974 | New Hanover | 1975 |
| Clay | 1978 | Northampton | 1980 |
| Cleveland | 1980 | Onslow | 1976 |
| Columbus | 1981 | Orange | 1981 |
| Craven | 1978 | Pamlico | 1981 |
| Cumberland | 1980 | Pasquotank | 1974 |
| Currituck | 1981 | Pender | 1979 |
| Dare | 1975 | Perquimans | 1976 |
| Davidson | 1981 | Person | 1976 |
| Davie | 1979 | Pitt | 1981 |
| Duplin | 1978 | Polk | 1977 |
| Durham | 1977 | Randolph | 1977 |
| Edgecombe | 1977 | Richmond | 1981 |
| Forsyth | 1976 | Robeson | 1980 |
| Franklin | 1974 | Rockingham | 1979 |
| Gaston | 1981 | Rowan | 1974 |
| Gates | 1977 | Rutherford | 1976 |
| Graham | 1980 | Sampson | 1979 |
| Granville | 1978 | Scotland | 1979 |
| Greene | 1981 | Stanly | 1977 |
| Guilford | 1980 | Stokes | 1975 |
| Halifax | 1975 | Surry | 1975 |
| Harnett | 1980 | Swain | 1981 |
| Haywood | 1980 | Transylvania | 1981 |

Table 2 (continued)

| Counties | Year of revaluation (effective January 1) |
|---|---|
| Tyrrell | 1975 |
| Union | 1976 |
| Vance | 1976 |
| Wake | 1976 |
| Warren | 1977 |
| Washington | 1981 |
| Watauga | 1979 |
| Wayne | 1979 |
| Wilkes | 1977 |
| Wilson | 1976 |
| Yadkin | 1975 |
| Yancey | 1976 |

## SUMMARY

In 1974 participation in the agricultural use-value assessment program under the provisions of the 1973 act to provide for the Classification, Appraisal, Assessment and Taxation of Agricultural, Horticultural and Forest Land has been minimal. Preliminary data indicate that the extent of participation will increase in 1975, although acreage and taxes deferred will continue to be small. This trend toward increased participation is expected to continue for several years, at least until 1981 when all counties will have undergone revaluation since the enactment of the agricultural use-value legislation. Other considerations are also involved, however, and the degree of participation will depend upon a number of factors (e.g., changes in the law) which cannot easily be predicted or evaluated at this time.

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