

# Use Value Appraisals

Current Use 101

# Vermont property taxes

- Municipal property tax
- Statewide education property tax
- Use largely the same base – the value of real property in Vermont determined on April 1 of each year by the listers in each town

# Fair market value

- Most property valued at fair market value.

32 V.S.A. 3481(1)(A):

*The estimated fair market value of a property is the price which the property will bring in the market when offered for sale and purchased by another, taking into consideration all the elements of the availability of the property, its use both potential and prospective, any functional deficiencies, and all other elements such as age and condition which combine to give property a market value.*

# Highest and best use

2008 PVR Lister's Handbook:

*In order to estimate fair market value, you must first determine the highest and best use of the property.*

*“Highest and best use” relates to the monetary return one can realize from a property. It is that use that will generate the highest net return to the property over a reasonable period of time. To determine the highest and best use, you must consider what is physically possible, what type or types of use are legal, what is financially feasible, and in today's market and the near future, what use will bring in the most monetary return.*

# Use value appraisals

- Vermont treats agricultural and forest land differently, by giving qualifying land a “use value appraisal” instead of valuing it at fair market value

## **32 VSA 3752(12):**

*"Use value appraisal" means, with respect to land, the price per acre which the land would command if it were required to remain henceforth in agriculture or forest use, as determined in accordance with the terms and provisions of this subchapter. With respect to farm buildings, "use value appraisal" means zero percent of fair market value.*

# Current use advisory board

- Set values for agricultural and forest land each year
- Values are communicated to the Director of PVR, who gives values to towns
- The use value appraisal rates for 2015 are:
  - Agricultural land: \$289/acre
  - Forest land: \$131/acre (isolated acreage at \$98/acre)

# Obtaining a use value appraisal

- Applicants apply to PVR by September 1
- PVR decides if the land qualifies for use value appraisal and notifies towns of eligible property
- Listers apply use value rates to land in calculating the property tax liability of the claimant

# How is it paid for?

- Reduction in land values from fair market value to use value creates the following costs (in 2014):
  - Approximately \$45.2 million in foregone revenue from the Education Fund
  - Approximately \$14.5 million in municipal reimbursements from the General Fund

# Municipal reimbursements

- Towns are held harmless for lands receiving a use value appraisal
- Town receives a payment each year to make them whole for the difference between the municipal taxes raised on the land at fair market value and use value
- Money comes out of an annual General Fund appropriation

# Agricultural land

(1) "Agricultural land" means any land, exclusive of any housesite, in active use to grow hay or cultivated crops, pasture livestock or to cultivate trees bearing edible fruit or produce an annual maple product, and which is 25 acres or more in size except as provided in this subdivision (1). There shall be a presumption that the land is used for agricultural purposes if:

- (A) it is owned by a farmer and is part of the overall farm unit; or
- (B) it is used by a farmer as part of his or her farming operation under written lease for at least three years; or
- (C) it has produced an annual gross income from the sale of farm crops in one of two, or three of the five, calendar years preceding of at least:
  - (i) \$2,000.00 for parcels of up to 25 acres; and
  - (ii) \$75.00 per acre for each acre over 25, with the total income required not to exceed \$5,000.00;
  - (iii) exceptions to these income requirements may be made in cases of orchard lands planted to fruit producing trees, bushes, or vines which are not yet of bearing age. As used in this section, the term "farm crops" also includes animal fiber, cider, wine, and cheese produced on the enrolled land or on a housesite adjoining the enrolled land from agricultural products grown on the enrolled land.

# Farmer

"Farmer" means a person:

- (A) who earns at least one-half of the farmer's annual gross income from the business of farming as that term is defined in Regulation 1.175-3 issued under the Internal Revenue Code of 1986; or
- (B)(i) who produces farm crops that are processed in a farm facility situated on land enrolled by the farmer in a use value appraisal program or on a housesite adjoining the enrolled land;
- (ii) whose gross income from the sale of the processed farm products pursuant to subdivision (i) of this subdivision (B), when added to other gross income from the business of farming as used in subdivision (A) of this subdivision (7), equals at least one-half of the farmer's annual gross income; and
- (iii) who produces on the farm a minimum of 75 percent of the farm crops processed in the farm facility;
- (C) The Agency of Agriculture, Food and Markets shall assist the director in making determinations of eligibility pursuant to subdivision (B) of this subdivision (7).

# Managed forestland

(9) "Managed forestland" means:

- (A) any land, exclusive of any house site, which is at least 25 acres in size and which is under active long-term forest management for the purpose of growing and harvesting repeated forest crops in accordance with minimum acceptable standards for forest management. Such land may include eligible ecologically significant treatment areas in accordance with minimum acceptable standards for forest management and as approved by the Commissioner; or
- (B) any land, exclusive of any house site, which is:
  - (i) certified under 10 V.S.A. § 6306(b);
  - (ii) is owned by an organization that was certified by the Commissioner of Taxes as a qualified organization as defined in 10 V.S.A. § 6301a and for at least five years preceding its certification was determined by the internal revenue service to qualify as a Section 501(c)(3) organization which is not a private foundation as defined in 26 U.S.C. § 509(a); and
  - (iii) is under active conservation management in accord with standards established by the Commissioner of Forests, Parks and Recreation.

# Land Use Change Tax

- When land with a use value appraisal is “developed”, the land is no longer eligible for a use value appraisal, and the owner must pay a land use change tax.
- Tax is 20% of the fair market value if the land has been subject to use value appraisal for less than 10 consecutive years, and 10% if more than 10 consecutive years.
- If the developed land is only a portion of a parcel, the land use change tax is the same, but the value of the portion is not the fair market value of the land, but is a prorated value of the entire parcel.

# Development

- 32 V.S.A. 3752(5): For purposes of the land use change tax, “development” means:
  - construction of any building, road, or other structure, or any mining, excavation, or landfill activity
  - but not the construction or alteration of any building, road, or other structure for farming, logging, forestry, or conservation purposes
  - subdivision of a parcel of land into two or more parcels, regardless of whether a change in use actually occurs, where one or more of the resulting parcels contains less than 25 acres each, excluding family transfers
  - cutting of timber on property contrary to a forest or conservation management plan



