

Use-Value Assessment of Rural Land Time for Reform?

By John E. Anderson and Richard W. England

THE USE OF PREFERENTIAL TAX TREATMENT TO PROTECT RURAL LAND FROM DEVELOPMENT in the United States has been largely ineffective, with the costs often outweighing the benefits, according to a new report published by the Lincoln Institute of Land Policy. Use-value assessment—the undervaluing of rural properties to reduce the tax burden—has been modestly successful in protecting some land, but many states have implemented the policy poorly, often with unintended consequences.

“While well-intentioned, use-value assessment often does little to protect farmland and open space, while unfairly shifting the tax burden to residential and commercial property owners,” said John E. Anderson, who coauthored the report, *Use-Value Assessment of Rural Lands: Time for Reform?*, with Richard W. England.

The report is a digest of a book published in 2014, condensed to give policy makers and their staffs, as well as property tax experts and practitioners, a snapshot of the history and consequences of use-value assessment, as well as options for reform.

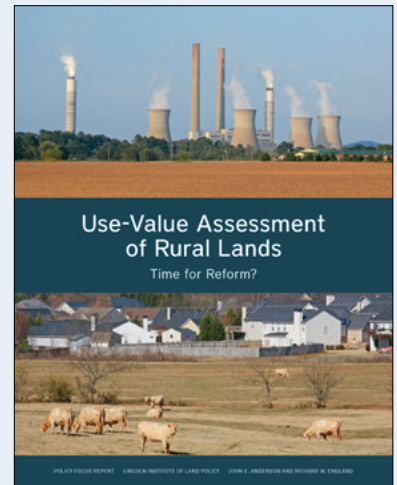
Use-value assessment began in the 1960s amid concerns about rapid urbanization. Now nearly every U.S. state permits, and even requires, local assessors to value some rural properties below their fair market value to encourage their continued use for agriculture, or preservation as forestland or open space.

Despite their stated purpose of protecting farms and other rural properties from development, these policies often create tax shelters for the owners of “fake farms” intended for future development, or “hobby farms” that are not true commercial enterprises. These policies also employ inconsistent or inaccurate methods for assessing the use-value of a property, or the value of the farm as currently used—in contrast with the market value, which is typically higher because it considers the potential for development.

In addition, many state policies do not adequately penalize rural landowners who enjoy tax benefits for many years, only to sell their land for development. Finally, use-value assessment often fails to evaluate the public benefit of preserving a particular piece of land or type of property.

The authors recommend several reforms to improve use-value assessment, including:

- Weed out fake farmers by tightening eligibility and reporting.
- Disqualify landowners who have pending applications for rezoning.
- Stiffen penalties that are either nonexistent or weak.
- Standardize the practice of assessing a property’s use-value.
- Take the public value of a property into consideration.



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