

HOW AGRICULTURAL PROPERTY IS VALUED

IN COLORADO

We have prepared this brochure to explain how agricultural properties are valued for property tax purposes.



AGRICULTURE IN COLORADO

GENERAL INFORMATION

Agriculture plays an important role in the economy of Colorado. It is ranked as the third largest industry in the state providing an estimated 86,000 jobs. Farms and ranches generate about \$10 billion gross income. In addition, Colorado is the leading sheep and lamb feeding state in the nation, and ranks 5th in cattle feeding.'

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:

1. Earning or productive capacity would be determined by measuring the landlord's net income.
2. 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 preserved the production formula approach to value.

AGRICULTURAL LAND DEFINITION

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

1. A parcel of land, whether located in an incorporated or unincorporated area and despite the uses for which such land is zoned, which was used the previous two years and presently is used as a farm or ranch, and the gross income resulting from such use equals or exceeds one-third of the total gross income resulting from all uses of the land during any given property tax year.
2. A parcel of land that has at least forty 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.
3. A parcel of land that is being restored through conservation practices.
4. A parcel of land that consists of at least eighty acres, or of less than eighty 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.

'Statistics from the Colorado Department of Agriculture

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, sold, or fed.

RANCH:

A parcel of land that is used for grazing livestock for the primary purpose of obtaining a monetary profit. Livestock means 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.

VALUATION OF AGRICULTURAL LAND

Agricultural land is valued by capitalizing the landlord's net income into an indication of value using the capitalization rate established by law. Currently that rate is 13%.

The landlord's net income is the landlord's gross income minus allowable expenses that are typically paid by the landlord. These expenses may include bailing fence, water, fertilizer, alfalfa seed, and chemicals. The Division of Property Taxation researches some expenses that are used, while other expenses are gathered locally.

The landlord's gross income measures the earning or productive capacity of the land. The earning or productive capacity is determined by:

1. Establishing soil capabilities and classifications of farm or ranch lands.
2. Establishing the principal commodities and yield by farming areas. The Division of Property Taxation researches and develops the commodity prices based on a ten-year average of state-wide commodity

prices. All county assessors are required to use these prices in valuing all agricultural land.

3. Establishing a carrying capacity for grazing land and meadow hay land. This is based on the animal unit month (AUM) rent. The term AUM means the number of acres required to support a 1,000 pound animal for one month without supplemental feed.

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.

In designated growth-impacted counties, the county has the option to tax buildings constructed after January 1. The assessor would value them on July 1, and prorate that value by the number of months it has existed during the year.

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.

YOUR COOPERATION IS APPRECIATED!

FOR FURTHER INFORMATION ON HOW TAX RATES AND PROPERTY TAXES ARE DETERMINED, REQUEST THE "UNDERSTANDING PROPERTY TAXES" BROCHURE FROM YOUR LOCAL COUNTY ASSESSOR.

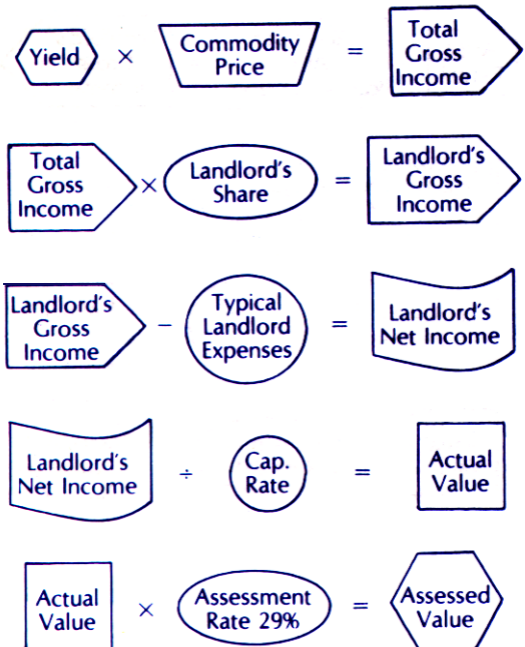
VALUATION OF IRRIGATED OR DRY FARM LAND

The steps in the valuation of irrigated or dry farm land 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% capitalization rate.
7. For assessment purposes, the assessed value is calculated by multiplying the actual value by the statutory assessment rate of 29%.

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.*

A graphic example of this procedure would be:

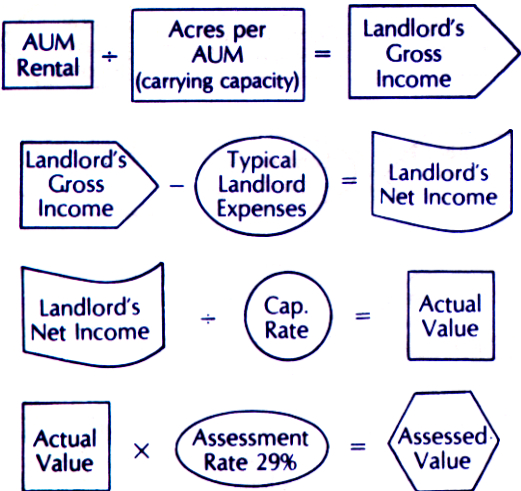


VALUATION OF GRAZING OR MEADOW HAY LAND

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 divided 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% capitalization rate.
5. For assessment purposes, the assessed value is calculated by multiplying the actual value by the statutory assessment rate of 29%.

A graphic example of this procedure would be:



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 lands eligible for agricultural land classification will be determined by the Colorado State Forest Service. They must meet the following conditions:

1. The property must be described and appear on the report submitted to the assessor by the Colorado State Forest Service on March 1.
2. The property cannot already be classified as a farm or ranch under the statutory definitions of a farm or ranch.
3. A forest management plan must have been prepared for the property.
4. 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 every 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 which is June 30th of the year prior to the reappraisal year.

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. Further details concerning this assessment rate can be found in the brochure **UNDERSTANDING PROPERTY TAXES.**"

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%.

Prepared by: Colorado Assessors' Association
Colorado Association of Tax Appraisers
Colorado Division of Property Taxation
(Department of Local Affairs)