

Value Tax Deferment Program Conceptual Discussion

Introduction

Property taxes make up a large portion of taxes paid by many landowners. All states have some form of preferential treatment for agricultural, natural resource, or open space land in an effort to preserve these spaces and industries, but also to provide some level of tax relief for landowners (Polyakov and Zhang, 2010; Wunderlich, 1997; Malme, 1993). Undeveloped land uses outside of agriculture and timber are also important to society and to the military, and maximum flexibility should be provided to these landowners through creative value tax deferment programs to promote compatible land use. This conceptual discussion presents real world examples of value tax deferment programs that promote compatible land use, then highlights the opportunity for a new program that benefits landowners whose properties are located near Department of Defense (DoD) lands and are important to sustaining the military mission.

Texas Wildlife Property Tax Exemption

One example of a present-day value tax deferment program is the wildlife management property valuation in Texas. To preserve open space lands, Texas law allows some properties to be taxed at a lower rate than others if they meet the criteria for one of two types of special appraisals. Most landowners use "Assessment of Lands Designated for Agricultural Use" (1d) appraisal, but others are interested in wildlife management, which qualifies for "Taxation of Certain Open-Space Lands" (1-d-1). This program is a special valuation of property based on its productivity value rather than on its market value. Productivity value is an estimate of the value of the land if its use were limited to agriculture, timber or wildlife only, without influence from any other market forces that add value to the land. The landowner pays taxes on a value that may be significantly below the market value, which is financially beneficial to the landowner. If landowners stop using the land for agriculture, there is a "rollback" tax penalty. This penalty is in place to keep owners from paying lower property taxes on land that may be intended for non-agricultural purposes in the future. The rollback tax equals the difference between the taxes the owner actually paid in the five years preceding the change in use and the taxes the owner would have paid on his property's market value.

North Carolina Present-Use Value Program

North Carolina offers several tax deferment programs to its landowners. A present-use value (PUV) program is available and focused on deferring property taxes for landowners who are interested in generating income from their property through farming, horticulture, or timber production. PUV is the value of land in its current use as agricultural land, horticultural land, or forestland based solely on its ability to produce income and assuming an average level of management. Property that qualifies for this classification is assessed at its PUV, which is usually much less than its market value. The tax office also establishes a market value for the land, and the difference between the market value and the PUV

is maintained in the tax assessment records as deferred taxes. When the land becomes disqualified from the PUV program, the landowner will be assessed the deferred taxes for the current year and the three previous years. This penalty is in place for similar reasons as the programs in Texas. North Carolina also has a Wildlife Conservation Land Program. This program allows landowners managing for protected wildlife species or priority wildlife habitats to apply for decreased property taxes. The program is very similar to the PUV program but is only available to land with protected wildlife species or priority habitats. Landowners who have owned their land for at least five years and who have at least contiguous, qualifying acres may enroll. The cap for enrollment is 100 qualifying acres per a landowner per a county.

California Land Conservation Act (Williamson Act)

A well-known existing value tax deferral program is the California Land Conservation Act, better known as the Williamson Act (hereafter referred to as the Act). The Act has been California's premier agricultural land protection program since its enactment in 1965 and is a means to preserve agricultural and open spaces by discouraging premature and unnecessary conversion to urban uses during the length of a contract period. The program was also envisioned as a way for local governments to integrate the protection of open space and agricultural resources into their overall strategies for planning urban growth patterns. More than 16 million of the state's 30 million acres of farm and ranch land are currently protected under the Act. This number represents about one third of all privately held land in California, and about one half of all the state's agricultural land. The Act creates an arrangement whereby private landowners contract with counties and cities to voluntarily restrict their land to agricultural and compatible open-space uses. The vehicle for these agreements is a rolling term 10-year contract (i.e., unless either party files a "notice of nonrenewal," the contract is automatically renewed for an additional year.). In return, restricted parcels are assessed for property tax purposes at a rate consistent with their actual use, rather than potential market value. In August of 1998, the Legislature enhanced the Act with the Farmland Security Zone (FSZ) provisions. The FSZ provisions offer landowners greater property tax reduction in return for a minimum rolling contract term of 20 years. The Open Space Subvention Act (OSSA) was enacted on January 1, 1972, to provide for the partial replacement of local property tax revenue foregone as a result of participation in the Act and other enforceable open space restriction programs; however, revenue shortfalls during the recession resulted in the eventual elimination of OSSA subvention payments. In response to the elimination of OSSA funds, Assembly Bill (AB) 1265 was approved allowing eligible counties to re-capture 10 percent of the property tax benefits by implementing reduced term contracts. Implementing these provisions is at the discretion of the individual county.

Value Tax Deferral Programs Benefitting the Military

A possible incentive program to encourage more landowners to maintain compatible land uses with the military is a value tax deferral program for properties that are in the vicinity of DoD properties and are important to the military mission, e.g. designated Sentinel Landscapes. Examples of eligible properties might include lands adjacent to a military installation, lands which underlie a military training

flight route (MTR), or land possessing important natural resource characteristics, e.g. water quality/quantity or valuable habitat.

A new present-use value tax deferral program focused on lands important to the military mission could be created to include properties in undeveloped uses other than agriculture or timber, or could be additive to properties already included in PUV programs. Landowners whose properties are located near DoD properties who keep their land in an undeveloped state can provide a service not only to the military, but also to society in general by providing ecosystem services, such as clean water and reduced air pollution. For example, a study in Mecklenburg County, NC show that trees reduced air pollution costs by \$44 million dollars (American Forest, 2003). By deferring taxes these landowners would be compensated for the service their land is providing to society, not just for national defense but also for the ecosystem services these lands provide. As a mutual benefit, compatible land use will help secure the military's mission to test and train. A PUV tax deferral program focused on lands important to the military could be primary or additional to other tax exemptions.

Under the new military tax deferral program, landowners could sign up for a deferred tax rate for portions of their land that meet specified criteria. One qualifying example would be land retained in an undeveloped state such as forestland. This program would require the landowner's willingness to keep his/her land in a compatible use to the military. The consequence for a landowner becoming ineligible in the program would be repaying the difference in the deferred tax and the highest and best use tax for X number of years plus a penalty. The penalty would restrict the Landowner's ability to develop the land for X number of years following ineligibility in the program. This measure would prevent landowners from dropping out of the program just so they could develop their land.

Conclusion

In summary, states have existing tax deferral programs that benefit landowners primarily engaged in agriculture or timber uses. However, there is a great need to encourage compatible use for lands that are relevant to the military mission and provide ecosystem services to society. The creation of a new value tax deferral program focused on lands important to the military mission could help relieve many of the challenges facing the U.S. military today such as encroachment and loss of training abilities. Tax incentives could serve as an important piece in the overall development of a comprehensive, landscape-scale strategy to encourage private landowners to engage in land uses that are compatible with the military mission. By incentivizing compatible land use, states can protect military sustainability.