

# 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 105,000 jobs. Farms and ranches generate about \$15 billion gross income. In addition, Colorado is one of the leaders in sheep and lamb feeding in the nation, and ranks 4<sup>th</sup> in cattle feeding.\*

\* Statistics from the Colorado Department of Agriculture

## 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 productive capacity of the land over a reasonable time period. The earnings are capitalized into an actual value.

In 1969, individuals representing the agricultural community met with the Colorado Tax Commission (now called the Division of Property taxation) to establish valuation criteria. They agreed upon the following provisions:

- 1) Earning or productive capacity is determined by measuring the landlord's net income over a reasonable period of time.
- 2) A reasonable time period would be the current ten-year average.

## AGRICULTURAL LAND DEFINITION

Colorado Statutes define 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, that was used the previous two years and presently is used as a farm or a ranch, or is being restored through conservation practices. The conservation practice must be a plan under the Conservation Reserve Program (CRP) or a plan approved by an appropriate conservation district. Agricultural land includes land under the residence and land under support buildings if they are a part of the operation.
- 2) A parcel of land that has at least forty acres of forest land and that is subject to 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 consists of at least eighty acres, or less than eighty acres if such parcel does not contain any residential improvements, is subject to a perpetual conservation easement, 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."

- 4) A parcel of land, used as a farm or ranch, if the owner has a decreed water right or a final permit to appropriated ground water for purposes other than residential purposes, and the water appropriated under such right or permit is used for the production of agricultural or livestock products on the land.\*

\*Does not fall under the two year use requirement as described in paragraph 1.

## AGRCULTURAL TERMS

### FARM:

A parcel of land that is used to produce agricultural products that originates from the land's productivity for the primary use of obtaining a monetary profit. Agricultural products are plant and animal products derived from farming, ranching, animal husbandry, and horticulture.

### RANCH:

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

### LIVESTOCK:

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, 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 the rate is 13%.

The landlord's net income is the landlord's gross income minus allowable expenses that are typically paid by the landlord. The expenses may include baling, fencing, water, fertilizer, alfalfa seed, and chemicals. The Division of Property Taxation researches typical 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 ten-year average yield by farming areas. The Division of Property Taxation researches and develops statewide commodity prices based on ten-year averages. 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. The capacity is based on 75 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 condition and use, and values 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 values the buildings on July 1, and prorates that value by the number of months it has existed during the year. At the present time, Douglas County is the only county so designated.

### ASSESSOR'S ROLE

Because the method for valuing agricultural land is based on the land's productivity, the assessor periodically reviews 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. The information could be a copy of your previous year's income tax 1040-F form, 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

Once classified as agricultural and 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**

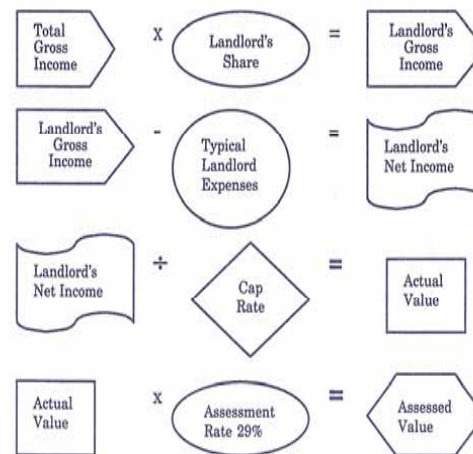
## VALUATION OF IRRIGATED OR DRY FARM LAND

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 on a ten-year average basis.
- 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 as follows:

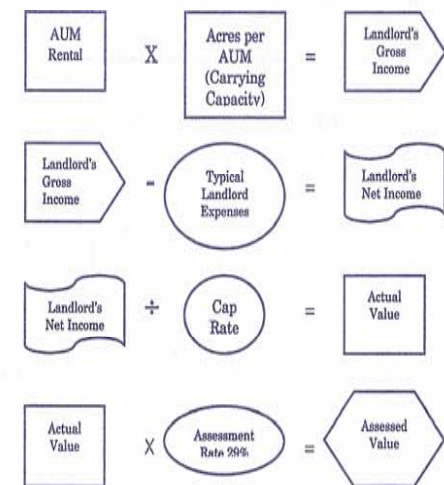


## VALUATION OF GRAZING OR MEADOW HAY LAND

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 number of acres per AUM to get the gross income multiplies the AUM rental rate researched by the Division of Property Taxation.
- 3) Deduct the appropriate expenses from the gross income to get the landlord's net income. These expenses, researched and published by the Division of Property Taxation, are water and fence costs.
- 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 originated from the productivity of the land for the primary purpose of obtaining a monetary profit

Forest land that has been designated as agricultural land is classified and valued the same way 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. The approach uses sales of similar properties to arrive at the estimate of value. Other agricultural property may include (but is not limited to) feedlots, green houses, fur-bearing animal farms, 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 that is June 30<sup>th</sup> 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** capitalized 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%.

*For further information on how tax rates are determined, please request a copy of the "UNDERSTANDING PROPERTY TAXES" brochure from your local county assessor. You may also view the publication on our website at [www.dola.state.co.us/propertytax/index.htm](http://www.dola.state.co.us/propertytax/index.htm).*

### Prepared by:

Colorado Division of Property Taxation  
(Department of Local Affairs)

# AGRICULTURAL PROPERTY IS VALUED IN COLORADO

*We have prepared this brochure to explain how agricultural properties are valued for property tax purposes. For further information please visit our website at*

*[www.dola.state.co.us/propertytax/index.htm](http://www.dola.state.co.us/propertytax/index.htm)*