How to Appraise Agricultural Land

In Texas, the appraised value of agricultural land is based on a uniform appraisal method in which a land classification system is developed for each county using an average of the productivity value in that county for the previous five years. The appraised agricultural value is not calculated using a specific piece of property's actual productivity value; rather, specific pieces of property are put into categories within the classification system and given an appraised value based on that category.

1. **Chapter 23 of the Texas Tax Code**

Section 23.52 of the Texas Tax Code sets out the method for appraising land designated as agricultural land. TEX. TAX CODE §23.52. According to TEX. TAX CODE §23.52(a), the appraised value "is determined on the basis of the category of the land, using accepted income capitalization methods applied to average net to land." TEX. TAX CODE §23.52(a). Category is defined as "the value classification of land considering the agricultural use to which the land is principally devoted." TEX. TAX CODE §23.51(3). The chief appraiser of each county is vested with the duty of determining the appraised value for each category of land, rather than for each individual tract of land. TEX. TAX CODE §23.52(b); 34 TEX. ADMIN. CODE §9.4001 (1980).

2. **Manual for the Appraisal of Agricultural Land**

The State Comptroller provides each appraisal district with an appraisal manual that outlines the ***mandatory method for appraising agricultural land***. TEX. TAX CODE §23.52(d). This manual, the Manual for the Appraisal of Agricultural Land, has been adopted by the State Property Tax Board, and is part of the Texas Administrative Code. 34 TEX. ADMIN. CODE §9.4001 (1980). This manual has the full force and effect of law.

The Manual for the Appraisal of Agricultural Land states, because "appraisers cannot appraise each individual tract of land," they shall follow the provided method to determine the appraised valuation of land designated as agricultural land. TEX. STATE COMPTROLLER OF PUB. ACCOUNTS, MANUAL FOR THE APPRAISAL OF AGRICULTURAL LAND, 19-20 (1990). The steps for this process, according to the manual, are as follows:

1.   Develop a land classification system. Such a system groups land into principal types of agricultural uses.

2.   Estimate the net to land per acre for each class or sub-class. This annual income is based upon the five-year period preceding the year before the appraisal.

3.   Divide the class' net to land by the year's capitalization rate to find the value per acre in each class. These values form a productivity appraisal schedule.

4.   Classify all qualified agricultural land according to the land classification system.

5.   Use the schedule to calculate the productivity value of the individual parcels of land. Typically, the productivity value schedule will show a value per acre for each land class. For any given parcel of land, the number of acres times the per acre value determines the agricultural use value.

This state-wide agricultural valuation system outlined in the manual, and therefore, adopted by the State, illustrates that the appraised value of agricultural land is based on the classification of land and an average of productivity for the county and not on individual productivity or individual characteristics of specific tracts of land. It would be impractical, if not impossible, to calculate the appraised value based on each specific land owner's productivity and/or other individual factors.

3.   Case Law

Furthermore, not only does the foregoing illustrate that the appraised value of agricultural land is calculated using a county average, case law does so as well. In *Rusk Indus., Inc. v. Hopkins County Tax Appraisal Dist.*, the court stated "taxation is based on the land's productive capacity and is not determined by the actual profit or production obtained from the specific tract of land being taxed; rather, it is determined according to what a typical tract of land can produce." *Rusk Indus., Inc. v. Hopkins County Tax Appraisal Dist.*, 818 S.W.2d 111, 117 (Tex. App. – Texarkana 1991, writ denied). Additionally, in *Walker v. Appraisal Review Bd.*, the court indicated that "it is the land to be valued for agricultural use, and not the particular operator, or the particular operator's business." *Walker v. Appraisal Review Bd.*, 846 S.W.2d 14, 15 (Tex. App.--San Antonio 1992, writ denied) (citing King v. Real, 466 S.W.2d 1, 7 (Tex. Civ. App.--San Antonio 1971, writ ref'd n.r.e.)).

How Land Was Appraised in the Appraisal District

1.   Develop a land classification system

The first step in appraising agriculture land is to create a land classification system, grouping land according to "principal types of agricultural uses." TEX. STATE COMPTROLLER OF PUB. ACCOUNTS, MANUAL FOR THE APPRAISAL OF AGRICULTURAL LAND, 20 (1990). The classes of land are to be based on the most common land uses in the county. Individual differences in productivity shall not be reflected in the classification system, as it would not be practical. A class or sub-class will not be created for a small percentage of the total acreage; rather, this acreage will be included in a class with similar productivity.

The County Appraisal District has developed a land classification system. This system is contained on the County Appraisal District appraisal manual. Under the County Appraisal District land classification system, agricultural land is appraised as a member of one of four classes: Irrigated Cultivated Land; Non-Irrigated Cultivated Land; Improved Pasture; and Pasture and Rangeland. Each of these classifications has sub classes that are determined by soil type and productivity of the soil. Each of these classes and subclasses was determined by a soil survey done by the United States Department of Agriculture and the Texas Agricultural Experiment Station.

2.   Estimate the net to land per acre for each class or sub-class.

The second step in appraising agricultural land is to estimate the net to land per acre for each class of agricultural land. The net to land per acre for each category is the

average annual net income that a class of land would be likely to have generated over a five-year period. TEX. STATE COMPTROLLER OF PUB. ACCOUNTS, MANUAL FOR THE APPRAISAL OF AGRICULTURAL LAND, 23 (1990). Net to land is defined as "the average annual net income derived from the use of . . . land that would have been earned from the land during the five-year period preceding the year before the appraisal by an owner using ordinary prudence in the management of the land." TEX. TAX CODE §23.51(4).

The net to land is calculated based upon each class of land, not each specific tract of land, based on the productivity that could be expected from an ordinary prudent owner. Whether a specific tract of land did better or worse than the countywide average for the class is irrelevant. The relevant inquiry is what the productivity of the class of land was during the past five years.

3. Divide the class' net to land by the year's capitalization rate.

The third step in appraising agricultural land is to take each class' net to land figure and divide it by the year's capitalization rate to arrive at a per acre value for each category of land. TEX. STATE COMPTROLLER OF PUB. ACCOUNTS, MANUAL FOR THE APPRAISAL OF AGRICULTURAL LAND, 20 (1990). The net to land figure is determined in step two, discussed above. The capitalization rate is set by law. *See* TEX. TAX CODE § 23.53. The capitalization rate is the highest of 10% or the rate specified by the Farm Credit Bank of Texas, on December 31 of the preceding year plus 2-1/2 percentage points.

For tax year 2010, 10% was the higher of the two rates. Accordingly, the County Appraisal District divided the net to land figured in step two and divided it by the 10 capitalization rate. The result is found in the productivity appraisal schedule.

4.   Classify all qualified agricultural land according to the land classification system

The fourth step in appraising agricultural land is to place each tract of land designated as agricultural land into a category in the classification system. TEX. STATE COMPTROLLER OF PUB. ACCOUNTS, MANUAL FOR THE APPRAISAL OF AGRICULTURAL LAND, 20 (1990).

5.   Multiply the number of acres by the per acre productivity values

The fifth and final step in appraising agricultural land is to take the number of acres of each class of property and multiply it by the per acre value for that land category. The result equals the appraised agricultural value for that tract of land.