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THE STATE OF SOUTH CAROLINA  
OFFICE OF THE ATTORNEY GENERAL  
COLUMBIA

OPINION NO. 98-12 February 10, 1986

SUBJECT: Taxation & Revenue - Modifying Formula For  
Agricultural Land Valuations.

SYLLABUS: The South Carolina Tax Commission is required  
to adjust certain factors or items in the  
formula that is used to value agricultural  
lands in order that current agricultural use  
values are determined.

TO: The Honorable Alex Harvin III  
The Majority Leader  
House of Representatives

FROM: Joe L. Allen, Jr. *Joe*  
Chief Deputy Attorney General

QUESTION: May the South Carolina Tax Commission modify the  
formula used to value agricultural lands?

APPLICABLE LAW: South Carolina Tax Commission Regulation  
117-126, § 12-43-220(d)(2), South Carolina Code of Laws,  
1976.

DISCUSSION:

Section 12-43-220(d)(2) statutorily provides for the  
agricultural land classification. The value is determined  
by the capitalization of the average net annual earnings of  
the agricultural lands. Such includes:

- "1. An interest component.
2. A local property tax differential  
component.
3. A risk component.
4. An illiquidity component."

The statute further requires that each of these components  
is to be based on identifiable factors related to  
agricultural use of the property. The interest rate  
component is fixed by the statute to be:

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" \* \* \* the average coupon (interest) rate applicable on all bonds which the Federal Land Bank of Columbia, \* \* \* has outstanding on July first of the crop-year \* \* \*. Implementation of the provisions contained in this section shall be the responsibility of the Commission."

Tax Commission Regulation 117-126 provides the details to be used in determining the value. It provides in part that:

"In order to reflect market value, the variable factors for prices (Item (2)), expenses shown in item (4) (a) and (b), and factors of the capitalization rate shown in item (5) (a) and (b) shall be adjusted as often as the Commission deems necessary, but no less than every three years. When it is necessary to adjust these factors, the Commission shall adjust the values set forth in Schedule 1 accordingly. No other factors listed above may be adjusted without an amendment to the regulation."

The items to be adjusted are:

"(2) The price per bushel of corn and soybeans was obtained from the South Carolina Crop and Livestock Reporting Service for the years 1976, 1977 and 1978.

(4) Expenses were then subtracted from the gross income to arrive at net income. The various expenses are as follows:

(a) Variable costs were obtained from Clemson University. These are general farming expenses and fertilizer.

(b) Fixed costs of the farm operation were also obtained from Clemson University.

(5) The last step in the procedure is to capitalize net income into value by use of a capitalization rate which is composed of the following:

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(a) An interest rate which is the average coupon rate of all bonds which the Federal Land Bank of Columbia has outstanding for the crop years used in obtaining prices. (See (2) above). This component is defined in Section 12-43-220(d).

(b) A local property tax component was derived by using the average millage rate for the crop years used (See (2) above) multiplied by the assessment ratio."

Under the provisions of the statute and regulation, these factors are to be adjusted to reflect current agricultural land value.

CONCLUSION:

The South Carolina Tax Commission is required to adjust certain factors or items in the formula that is used to value agricultural lands in order that current agricultural use values are determined.

JLAJr:wcg