

Reducing Property Taxes on Agricultural Land

The Pinnacle

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There is an old expression that the only two certain things in life are death and taxes. While this is true, there are legal ways to reduce the property taxes on agricultural land. One primary way of doing this is through entering into a Williamson Act Contract. The Williamson Act was passed in 1965 to preserve agricultural and open space lands by discouraging premature and unnecessary conversion to urban uses. The Act creates an arrangement whereby private landowners contract with counties and cities to voluntarily restrict land to agricultural and open space use. The vehicle for these agreements is a rolling term contract for a certain number of years which, at a minimum, must be 10 years. In return, restricted parcels are assessed for property tax purposes at a rate consistent with their actual use, rather than potential market value.

The key here is that agricultural land will be assessed based upon a capitalization of its income rather than its sales price. As a general rule, California law allows a county to assess property taxes based upon the sale price of the property. Under Proposition 13, a change of ownership will, in most cases, trigger a reassessment of the property taxes.

Everyone has seen the value of land in San Benito County, as in most of California, increase significantly in the past 10 years. There have been even more dramatic increases in the price of agricultural land that has the possibility of development. Although these increased prices are good news for a seller and for the county that collects the property taxes, they are not so good news for a buyer. These rapid price increases have significantly increased the property taxes attributable to any land sale, and thus increase the carrying costs associated with the land.

The Williamson Act allows an agricultural landowner to have the property taxes calculated based upon a percentage of total income that is to be derived from the property, as opposed to the sale price. Most agricultural landowners can enter into a Williamson Act Contract so long as they meet the requirements under the Act. Depending upon the circumstances, even landowners that have held land for a significant portion of time may have some property tax savings by entering into a Williamson Act Contract.

An agricultural landowner must carefully evaluate whether or not to enter into a Williamson Act Contract. There are certain circumstances in which the restrictions placed on the land may not be worth the tax savings. For example, if a landowner is considering any development of part or all of their land, then they should not enter into a Williamson Act Contract. A landowner must carefully analyze the costs and benefits of entering into a Williamson Act Contract, and they should contact an attorney familiar with Williamson Act Contracts to assist in this evaluation. For more information, please call Patrick Casey, who is an attorney at Lombardo & Gilles, at (831) 754-2444.