

The Georgia Conservation Use Tax Act: Yielding Economic Benefits to Peach Growers and the State Economy

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In 1993 the Georgia Legislature passed the Georgia Conservation Use Tax Act (GCUTA). This law permits farmland and timberland to be appraised for property taxes under its current use value, instead of the potential "best" use value. Best use in many areas would be the value of the land if a farmer sold out to a commercial or residential developer. By basing property taxes on the actual value of farming or timber operations (instead of potential value if the land was sold to developers), cash flow is improved and more land can remain in farming, timber, or open space.

Recently, we completed a study of investment and economic returns in the Georgia peach industry. We found that peach growers do indeed benefit from the GCUTA to a significant degree. Further, this law is helping to increase the size of the Georgia peach industry and creating jobs throughout the State.

Using Peach County as an example of the impact of this tax program, we estimated the market value of high quality land for peach orchards at \$3500/acre for residential development and \$1400/acre for use as a peach orchard. Peach County's millage rate is 35.2, meaning that you pay \$35.20 property tax on each \$1000 of appraised property value. Without GCUTA, land would be appraised at 40% of its best use value. For our example, that would be 40% of \$3500 and the property tax bill for one acre would be \$49.28 ($= \$3500 \times 0.40 \times 35.2 / 1000$). The GCUTA allows appraisal at 40% of current-use market value automatically and at 30% if the landowner agrees to leave the land in an agricultural or undeveloped state for 10 years. Assuming a peach grower agrees to the 10 year contract (easy for a new or young orchard), the property tax on one acre would drop to \$14.78 ($= \$1400 \times 0.30 \times 35.2 / 1000$). This produces an annual savings of \$34.50/acre ($\$49.28 - \14.78).

Over an expected 12 year useful life of a peach orchard, this stream of annual savings has a present value of about \$270/acre (that is, you would be indifferent between getting \$270 now or \$34.50 each year for the next 12 years). By increasing the profitability of growing peaches compared to before the GCUTA, more acres of peaches will be planted. We estimate this increase to be about 170 acres per year and calculate that in the long run, this law may lead to a 10 percent increase in Georgia peach acreage.

This analysis clearly shows the beneficial impact the Georgia Conservation Use Tax Act is having on the peach industry. Because the increased income in the peach industry leads to more jobs outside the peach sector as growers spend their earnings, the entire state economy benefits from this law. In fact, we calculate the expansion of peach acreage will add about 125 jobs to local economies. Growers should be sure that they are getting the full benefit of this law as it can convey significant financial benefits to growers,

especially in areas where developers are bidding up farmland prices for conversion uses such as residential subdivisions.

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