State of California

BOARD OF EQUALIZATION

PROPERTY TAX RULES

Division 1. State Board of Equalization-Property Tax
Chapter 1. Valuation Principles and Procedures

Rule 52. Restricted Value of Perennials Other Than Timber As Open-Space Lands.

Authority: Section 15606, Government Code.
Reference: Sections 423 and 429, Revenue and Taxation Code.

(a) MINIMUM VALUE. The restricted value of land planted to fruit-bearing trees, nut-bearing trees, vines, bushes, or other perennials except timber, and the perennials thereon, pursuant to sections 423 and 429 of the Revenue and Taxation Code, shall be determined by capitalizing the larger of (1) the net income that the land and such perennials can be expected to yield under prudent management and subject to the applicable restrictions or (2) the net income that the land can be expected to yield over a typical rotation period, as evidenced by historic cropping patterns and agricultural commodities grown, if planted to typical annuals grown in the area. "Typical annuals grown in the area" means annual crops that are actually grown in substantial quantities on land that is comparable to the subject property within the meaning of section 402.5 of the Revenue and Taxation Code.

(b) CAPITALIZATION OF RENTAL INCOME. In estimating such net income, property tax appraisers shall consider the rental income from recently consummated leases, negotiated at arm's length, for comparable plantings and the net income from owner-operated comparable plantings, giving more weight, other things equal, to the former than to the latter. Leases, however, must be for the full life of the perennials, or multiples thereof, if the rental income is to be used without adjustment for variations in expected yields as young perennials mature and older perennials decline. Allowance must also be made, when using rental income, for amortization of the landlord's investment in perennials and other depreciable property used in the enterprise.

(c) CAPITALIZATION OF OWNER-OPERATOR'S INCOME. When estimating the value of a planting of perennials by capitalizing the income it is expected to yield a prudent owner-operator, property tax appraisers shall first estimate the annual net income from the total operating unit over and above the income required to provide a fair return on capital invested in operating assets other than the land and perennials and to amortize such investments if they are depreciable. Such net income shall then be segregated into (1) the net income that can be fairly attributed to the land which shall not be less than the net income the land could be expected to yield if planted to typical annual crops grown in the area, and (2) the balance, which shall be considered the income from the perennials. The income attributed to the land shall be capitalized in perpetuity by dividing it by the capitalization rate prescribed in section 423(b) of the Revenue and Taxation Code. The income from perennials shall be capitalized by a method that provides for return of capital utilizing the capitalization rate prescribed in section 423(b). The present worths of the income streams thus imputed to the land and the perennials shall be added to derive the restricted value of the land and perennials.

(d) ESTIMATION OF INCOME. The income attributable to the land shall be estimated by one of the following procedures:

(1) Estimate the amount of net income the land would yield if planted to typical annual crops grown in the area. This procedure is particularly appropriate where comparable lands are commonly planted to annual crops.

(2) Estimate the amount of net income required under current market conditions to justify an investment equal to the replacement cost of the perennials with a life equal to the estimated total economic life of the perennials and subtract this amount of net income from the estimate of the total net income from the land and perennials. This procedure is particularly appropriate where bare land sales are uncommon and comparable land is seldom planted to annuals.

(3) Estimate the market value of the land by the comparative sales approach and multiply this estimate by a market-derived rate of return. Sales used for comparative purposes shall not include those materially influenced by the possibility of non-agricultural uses. The market value thus derived for the land shall be used only for the purpose of allocating income between the land and perennials.

History: Adopted February 17, 1970, effective March 26, 1970.
Amended January 6, 1971, effective February 18, 1971.
Amended February 25, 1998, effective June 12, 1998.