



North Carolina Department of Revenue

Michael F. Easley
Governor

June 21, 2002

E. Norris Tolson
Secretary

MEMORANDUM

TO: County Assessors

FROM: Johnny Bailey, Director
Property Tax Division *JCB*

RE: Peanut Quota

The United States Congress has just passed its Farm Bill for 2002 and that legislation will change rather drastically the way the peanut crop is handled for tax purposes in North Carolina. For the past 30 plus years the peanut allotment has been included as an element of real estate value. Counties have either charged a fixed amount per pound or they have increased the value of the land to reflect value added for having the right to grow and sell peanuts. The federal government support program for peanuts has sustained a very good value for the allotment, a value that could be measured by the sales between farmers. Counties made tobacco and peanut values a part of their adopted schedules of value, values that were less than, but close to their actual market value.

The new farm bill greatly curtails the support price for peanuts and as such may make peanuts less profitable for farmers. It is unknown at this point how the marketing forces will react to peanuts. If the support price was artificially high then it follows that a free market will see a drop in prices. We can further assume that peanuts will not be grown as extensively in North Carolina and that they will not bring the prices that have been realized for the past few years. North Carolina can be expected to lose peanut acreage to Georgia and Texas and this impact will be most felt in the northeastern counties of this state.

This bill was signed into law this month while the present schedules of values were adopted by county commissioners between 1995 and 2002. All current land schedules were adopted well before the effective date of this federal legislation. The counties that revalue in 2003 will be the first affected by the impact of this act on peanut allotments. Without the quota system any farmer can grow all the peanuts he is willing to grow and take his chances that he can sell his peanuts for more than his expenses. The peanut quota as we have known it is gone and any value associated with it will also be gone. We

recommend that all value associated with allotments or quotas for peanuts be removed from the tax scrolls for 2003.

It is our understanding that each holder of peanut quota will be paid \$.55 per pound, payable at \$.11 per pound per year for five years. Whether this is fair or equitable is not the question, we need to deal with the impact of this legislation from a property tax standpoint. Each county will have to handle numerous questions and requests for change in value.

Your county will possibly receive requests to remove the value of quota for 2002 and many have already received such requests. While we are sympathetic to these requests we can think of no similar situation in which a judicial or legislative decision implemented a change in the listing or value this late in a year. It always allowed the counties to continue the valuation or listing process during that year. It is similar to a house burning after the property has been listed. The tax visitation day of January 1 determines the ownership, situs and value effective on that day and any changes after that date are reflected with the next years listing.

Everyone is searching for what peanut land will rent for, what impact a surplus of land will have on prices and rents, what prices peanuts will bring this year, even what changes in land value come about as a result of the changes in this farm bill. Market forces and time will hopefully bring these issues into focus. We believe that this situation will require much time and study to fully understand the impact.

Most counties have prepared tax base valuation estimates for their county managers. Those tax bases would have included existing allotments as of January 1, 2002. We wish there were some quick answers to this problem and hopefully by this fall prices and rents will become stabilized and predictable. We will share anything new we know at the summer conference.

If you have any questions concerning this matter please contact Bill Connolly or any of the real property staff at 919 733-7711.