OLR RESEARCH REPORT

August 16, 2013 2013-R-0273

PROPERTY TAX ON GOLF COURSES

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You asked (1) about the different ways in which states require golf courses to be assessed for property tax purposes and (2) whether floodplains impact their assessments.

SUMMARY

Most states require real and personal property, including golf courses, to be assessed based on fair market value. Tax assessors use three standard approaches to calculate that value: the market, income, or cost approach. According to the National Golf Course Owners Association (NGCOA), the most common assessment method for golf courses is the cost approach. Assessors may also use the income and market approaches if certain data are available.

Many states have enacted preferential tax treatment programs for certain land uses, including golf courses and other open space or recreational land, that provide an economic incentive to property owners to preserve the land for open space or recreational purposes. These programs commonly require specified land uses to be assessed based only on the value of their existing use (i.e., current use value), rather than their fair market value, which could be potentially higher. The current use assessment generally applies to the unimproved sections of a golf course; Clubhouses and other buildings and improvements are assessed based on their fair market value.

We identified at least 23 states that assess golf courses and other open space or recreational land uses based on their current use value. Of these states, seven specifically name golf courses as eligible for such preferential treatment. We identified four states, Arizona, Hawaii, Maryland, and Nevada, where golf courses are the only recreational land use eligible for current use assessment.

The methods assessors use to calculate current use value under these preferential treatment programs vary. Some states establish a limit on the value or prescribe the value to be used. Others specify that assessors must use the market approach to value open space land. A few states prescribe methods specifically for valuing golf courses. Arizona, for example, establishes a $500 per acre value on the assessment of golf course playing, practice, and parking areas and requires the value of each golf course hole to be capped at its estimated 1988 replacement cost. Nevada, on the other hand, sets a $3,432 per acre cap (annually adjusted for inflation) on golf course open space land.

We also identified two other states, Indiana and South Carolina, that provide other forms of preferential tax treatment for golf courses. Among other things, both states require assessors to exclude the value of personal property, and any income derived from it, when valuing golf course property.

As to your second question, whether a floodplain on a golf course's property affects its assessment is fact specific, depending on the course's physical and economic characteristics and the variables the assessor considers when valuing the property. Consequently, it is hard to generalize about how floodplains affect golf course value.

STANDARD ASSESSMENT METHODS FOR GOLF COURSES

Most states determine a property's value, including a golf course's value, for tax purposes based on its fair market value, or the price estimated to result from fair negotiations between a willing seller and a willing buyer. The methods used to determine fair market value may be prescribed by law or policy or based on standard practice.

Under standard appraisal practice, assessors use three methods to estimate a property's fair market value: the market, income or capitalization, and cost approaches. The market approach measures a property's value by comparing it to other comparable properties that were recently sold in the same market area. The income approach, typically used for commercial properties, measures the property's value

based on its capacity to generate rent or income. Lastly, the cost approach measures a property's value by calculating the cost to replace it with a similar one, then reducing that cost by any depreciation, and adding to it the land value of the parcel.

According to a NCGOA report, assessors primarily use the cost approach when valuing golf courses. They generally rely on the Marshall & Swift Business Valuation Guide for cost data, which includes a section on golf courses and a set of criteria that divides golf properties into classes based on quality and performance (NCGOA, *Property Taxes: Is Relief in Sight*, updated September 2011).

In many cases, the method an assessor uses to value a golf course depends on the availability of reliable data required for a particular type of analysis. California's *Assessor's Handbook* maintains that the cost approach is most often used to value golf courses "not because it is theoretically superior to the other approaches, but simply because of the limited availability of land sales information and the fresh supply of current improvement cost data."

Assessors may also use the income and market approaches if certain data are available. In order to use the income approach, the assessor must (1) obtain data on a golf course's income and expenses and the economic life of its improvements and (2) convert the income stream into an estimate of value using a capitalization rate extracted from market data. The market approach, on the other hand, requires recent sales data, which may be difficult to obtain given the limited number of golf course sales and the variation in each course's physical and economic characteristics (California Board of Equalization, *Assessors' Handbook: Section 515*, *Assessment of Golf Courses*, January 1983, pgs. 12-14).

STATES PROVIDING PREFERENTIAL PROPERTY TAX TREATMENT TO GOLF COURSES

Current Use Assessment Programs

Many states have enacted preferential tax treatment programs that reduce the tax burden open space and recreational land in general, and golf courses in particular, as an economic incentive for property owners to preserve the land for open space or recreational purposes. The most common method of reducing the burden on such property is to assess it based on its current use, rather than its fair market value. (Many states, including Connecticut, also have comparable programs for farm, forest, and other rural land.)

Current use assessment determines a property's value based only on its actual use, and not a potentially higher or more profitable use. The fair market value of open space land, including a golf course, could be more than its current use value because developers may be willing to pay a higher price to buy and develop the land. Consequently, the current use assessment standard usually results in a lower assessment (and tax bill) than the fair market value standard. Most current use assessment programs require property owners to enter into a multi-year agreement restricting the owner's ability to change the property's use and imposing a penalty if the agreement is breached.

Table 1 identifies 23 states with current use assessment programs for open space or recreational land. Seven of these states' statutes specifically name golf courses as eligible open space or recreational land uses (Florida, Illinois, Massachusetts, Minnesota, Nevada, New Hampshire, and Oregon). In the other 16 states, golf courses, particularly unimproved golf course land, may qualify for current use assessment, depending on the state's definition of "open space" or "recreational" and the program's eligibility requirements. We identified four states, Arizona, Hawaii, Maryland, and Nevada, where golf courses are the only recreational land use eligible for current use assessment.

Table 1: Current Use Assessment Programs for Open Space or Recreational Land

States with current use assessment programs for open space and/or recreational land		***States where golf courses are the only recreational use eligible for current use assessment***
California	North Carolina	Arizona
Colorado	Nevada*	Hawaii
Connecticut	New Hampshire*	Maryland
Florida*	Ohio	Nevada
Georgia	Oregon*	
Idaho	Pennsylvania	
Illinois*	Rhode Island	
Massachusetts*	Tennessee	
Maryland	Texas	
Maine	Virginia	
Minnesota*	Vermont	
	Washington	

*These states' statutes explicitly designate golf courses as eligible for current use assessment as type of open space or recreational land use.

Sources: Malme, Jane. *Preferential Property Tax Treatment of Land*, Lincoln Institute of Land Policy Working Paper, 1993; *Significant Features of the Property Tax*, Lincoln Institute of Land Policy and George Washington Institute of Public Policy (Preferential Property Tax Programs); Individual state statutes and publications

A 1993 Lincoln Institute of Land Policy study of such programs indicates that there is significant variation in how assessors arrive at current use assessments for open space lands (Malme, Jane. *Preferential Property Tax Treatment of Land*, Lincoln Institute of Land Policy Working Paper, 1993). Some states establish a limit on the value or prescribe the value to be used. Others specify that assessors must use the market approach to value open space land.

Maine, for example, requires assessors to determine the current use value of open space land, including golf courses, based on the market approach. If an assessor is unable to determine the valuation of a parcel based on this method, the assessor may use an alternate method that reduces the parcel's fair market value by a specific percentage, according to certain categories (Me. Rev. Stat. tit. 36, §§ 1101-1121). Massachusetts, on the other hand, specifies that the assessment of recreational land may not exceed 25% of its fair market value (Mass. Gen. Laws Ann. Ch. 61B). For comparison purposes, the attached 2007 OLR report (2007-R-0193) describes the assessment methods Connecticut assessors use to determine the current use value of golf courses.

We identified four states that prescribe specific methods assessors must use or consider to calculate the current use value of golf course land.

Arizona. Arizona law requires county tax assessors to value all golf courses uniformly based on guidelines its Department of Revenue (DOR) prescribes (Ariz. Rev. Stat. Ann. § 42-13151 *et seq.*). Under the guidelines, the land comprising the golf course playing, practice, and parking area must be valued at $500 per acre. They also require assessors to value each hole of the golf course based on its estimated 1988 replacement cost. Golf course clubhouses, restaurants, and other building improvements must be valued on a replacement cost basis (Derdenger, Patrick, *Structure of the Arizona Property Tax*, Steptoe & Johnson LLP, 2005).

Tax assessors must apply these guidelines if a golf course's owner records a deed restriction on the property that limits its use to golfing for at least 10 years. If the owner violates the deed by converting the property to a different use, he or she is assessed a penalty equal to the difference between the taxes paid while the deed restriction was in effect and the amount that would have been levied had the property been valued like other property.

Hawaii. Hawaii does not prescribe a specific method assessors must use to determine current use value, but it requires them to consider a number of factors to determine that value, including rental income, cost of development, sales price, and the effect of the golf course's value on surrounding property values (Haw. Rev. Stat. § 246-12.1).

Maryland. Maryland requires qualified golf courses and country clubs to be assessed according to their current use value, according to Maryland Department of Assessments and Taxation procedures (Md. Code Ann., Tax-Prop. § 8-212 – 8-218). Under these procedures, golf course land is valued at $1,000 per acre (the same as open space land) and the course itself is assessed a per hole value based on its grade or class, less any applicable depreciation. Assessors must use a cost approach to value the course's clubhouse and other improvements.

To qualify for the special tax treatment, a golf course must be (1) open to the public, (2) located on at least 50 acres, and (3) a minimum 9-hole regular or championship course. A country club must (1) have at least 100 dues-paying members; (2) restrict the use of its facilities primarily to members, facilities, and guests; (3) be located on at least 50 acres of land; and (4) include a minimum 9-hole regular or championship golf course and clubhouse. Additionally, the property owner must enter into a minimum 10-year agreement with the state to limit the property to its existing use.

With certain exceptions, the property owner must pay a penalty equal to the amount of taxes the owner did not have to pay under current use assessment for up to 10 years under the program if, during the agreement period, the land is (1) conveyed to a new owner, (2) ceases to be used as a country club or golf course, or (3) fails to meet the qualifications for an eligible country club or golf course.

Nevada. Nevada requires golf course land to be assessed according to uniform assessment methods prescribed by the Nevada Tax Commission (Nev. Rev. Stat. Ann. § 361A). The prescribed methods (1) cap the value of golf course open-space land at $3,432 per acre (annually adjusted for inflation) and require assessors to value golf course improvements based on the course's class. Personal property and other improvements, including clubhouses, pro shops, restaurants, parking lots, swimming pools, and maintenance buildings, must be valued under standard assessment methods (Nev. Admin. Code §§ 361A.310 – 361A.440).

Other Forms of Preferential Tax Treatment

We identified two states, Indiana and South Carolina, that provide other forms of preferential tax treatment for golf courses. Indiana requires assessors to use an income approach to determine the value of golf courses that, among other things, must (1) provide for the uniform and equal assessment of golf courses of similar grade quality and play length and (2) exclude the value of personal and intangible property, and any income derived from such property. Tax assessors in Indiana must use uniform income capitalization tables and procedures prescribed by Indiana's Department of Local Government Finance (Ind. Code Ann. § 6-1.1-4-42).

South Carolina requires assessors to exclude the value of tangible and intangible personal property, and any income or expense derived from such property, when valuing golf course property. It does not prescribe a specific assessment method, but specifies that if assessors use an income approach, the taxpayer must provide income and expense data for the entire golf operation, golf cart rentals, food and beverage service, and pro shop (SC. Code § 12-43-36).

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