
Special Use Valuation

Prepared for: Sample

Prepared by: Brentmark

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Special Use Valuation

Capitalization Rate:

5.25%

Years Prior to Death	Gross Rent of Comparable Land	Real Estate Taxes	Capitalized Value
2022	\$21,250	\$3,520	\$337,714
2021	\$20,250	\$3,350	\$321,905
2020	\$19,950	\$3,200	\$319,048
2019	\$19,250	\$3,100	\$307,619
2018	\$19,000	\$3,000	\$304,762
Total	\$99,700	\$16,170	

Average Rent:

\$19,940

Average Real Estate Taxes:

\$3,234

Special (Current) Use Value:

\$318,210

This scenario is a hypothetical illustration based on the assumptions you entered via the inputs inside the program. It is to be used solely as a conceptual guide to understand and quantify your planning needs. It would be wise to consider this illustration together with all other information you deem necessary in making your investment decisions. This illustration is not a guarantee of the performance of any specific investment. Actual performance from your investments and assets may vary. This illustration is not legal or tax advice. You should consult with your attorney and accountant to review this information and determine its appropriateness for your particular situation. The provider of this illustration provides no guarantee and assumes no responsibility or liability for the accuracy of the information provided (including whether the interest rate you have selected is in fact "reasonable") or for your reliance based on this information.

Special Use Valuation

If certain criteria are met, an executor may choose to value property based on its actual use instead of on its "highest and best" use. In some cases, this tactic reduces the value of farm and business real property. In 2022, the value may be reduced up to \$1,230,000. While several methods of valuing this property exist, the valuation method used by this calculation is the most favorable and conclusive method. This method's formula, shown below, capitalizes the potential flow of income from comparable property.

$$\text{Special Use Value} = (a - b) / c$$

Where:

a = Average annual gross cash rental for comparable land.

b = Average annual state and local real estate taxes for such comparable land.

c = Average annual effective interest rate for all new federal land bank loans.

The income to be capitalized is the average annual gross cash rental income (for five years prior to the decedent's death) minus the average annual state and local real estate taxes (for the same five year period) applicable for that comparable land.

To qualify as comparable land, the land must be used for farming purposes and must be located in the same area as the farmland to be valued.

The executor is not permitted to use cash rentals from the farm to be valued. Rentals used from comparable farmland must have been the result of arms' length bargaining.

The capitalization rate is the average billing rate charged on new agricultural loans to farmers in the farm credit district where the qualified property is located.