As land valuations outpace crop prices, region’s farmers look for relief from property-tax squeeze

Carolyn Orr

In his home legislative district, Ohio Sen. Cliff Hite knows well the dilemma facing local agricultural producers: Their tax bills are skyrocketing (by an average of 62 percent this year), he says, while returns are declining and operational costs are rising.

But finding a legislative fix to the problem is much easier said than done.

“Discussion on use value could backfire on farmers,” says Hite, noting that Ohio, like most states, has “an increasingly urban electorate and legislature not understanding why farmers should get a tax reduction.”

In Ohio, and most other Midwestern states, farmland is appraised using a formula based on “current agricultural use value.” Based on factors such as commodity prices, soil productivity, rental rates, production expenses and interest rates, the state determines the income that a farmer can be expected to earn on his or her land.

This formula allows farmland to be appraised at below true market value — in 2014, Hite says, the average discount on farmland property tax bills in Ohio was 50 percent. Since the 1960s, every state (via “use value” appraisals or other means) has provided preferential tax treatment for agricultural property. The reason: Farmland, especially that located on the fringes of growing urban areas, tends to jump in value beyond its ability to pay for itself.

In short, a farmer’s income often doesn’t keep pace with escalating property tax bills. And even with preferential taxing appraisals in place, farmers aren’t shielded from this problem. One reason is that most of these formulas use a multi-year rolling average, with tax calculations based on income earned over a period of five to seven years.

In 2015, crop prices (and thus farm incomes) have fallen, but property taxes are still being based on the record-high crop prices of a few years ago. The result is a real squeeze on rural landowners.

For now, some states are at least implementing short-term fixes to help.

In Ohio, for example, an administrative change by the Department of Taxation will reduce the increases in farmland valuations for tax year 2016. By cutting in half (from four years to two) the lag time between data collection and finalization of tax values, the state will allow changes in crop prices to be reflected more quickly in land values and, thus, individuals’ property tax bills.

But for some, such changes are not coming quickly enough. In June, a group of farmers filed a lawsuit against the state seeking $1 billion in what they claim are illegally collected increased taxes.

Indiana also employs a “use value” formula in its taxation of agricultural land. Because of the state’s four-year lag in the calculation of farmland values, the lower crop prices of 2014 won’t be reflected in the formula until 2018; as a result, landowners were bracing for a property tax increase of 18 percent for tax year 2015. (Between 2007 and 2014, farmland property taxes in Indiana increased by 47 percent.)

But the Indiana legislature intervened this year with passage of SB 436. The measure freezes the base value of land for taxes paid in 2016 and then allows it to increase by 2.7 percent in 2017. As part of SB 436, too, lawmakers delayed a change in the soil-productivity factor. That adjustment, if allowed to take effect, would have caused a spike in taxes on agricultural land.
SB 436 is expected to bring tax relief totaling $52.4 million next year, $86.5 million in 2017, and $111.1 million in 2018. Meanwhile, a summer legislative committee will study Indiana’s formula for determining farmland value and recommend whether it should be changed.

“While not a fix, this approach will provide us some time to look at a formula that has never been tested in times of record-high crop prices,” says Indiana Sen. Jean Leising, chair of the Senate Agriculture Committee.

Agricultural property taxes have also been under scrutiny in Nebraska, which does not have a “use value” formula. That state’s preferential treatment for farmland comes by appraising it at 75 percent of market value. But over the past decade, Sen. David Bloomfield says, the taxes on his Nebraska farm have increased by 300 percent due to the rise in land value. A legislative proposal this year to decrease the taxable value from 75 percent to 65 percent did not pass.

“People were concerned that this didn’t address the real issue,” Bloomfield says, “which in Nebraska is school funding.”

Compared to other states, Nebraska is much more reliant on local property taxes to pay for its K-12 schools. It also has some of the highest property taxes in the nation, according to the nonpartisan Tax Foundation.

And agriculture producers are paying a larger percentage of Nebraska’s total property tax bill — 29 percent in 2014 compared to 19 percent in 2004.

With disagreement this year on the details of a legislative fix, Nebraska lawmakers created two interim studies on farmland taxation. One will examine the possible imposition of a new sales or income tax upon the sale of agricultural land (the added revenue would then be used to provide property tax relief for agriculture producers); the second will explore the state’s reliance on property taxes to pay for its schools.

By: Friday, August 21, 2015 at 10:54 AM

Attachment Size
Stateline Midwest: July/August 2015 [3] 3.49 MB

Tags: Indiana Nebraska Ohio agricultural land property taxes Agriculture Policy Area Economics and Finance Tax and Budget Tax Policy