Agricultural Real Estate and The Property Tax Dilemma

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Focus of Remarks

• Brief introduction to role of property tax
• Assessment of agricultural land values in a dynamic market
• Agriculture’s share of the property tax burden
• Possible policy response
Property Tax 101

- Advolorem Tax
  According to Value
- Assessment of Taxable Property
- Annual tax levy assigned
  (Government revenue needs as percentage of assessed value)
- Primary tax base of local governments
  - School districts
  - County
  - Community college
  - City/village
  - Fire district
  - Natural resource district
  - other

Property Tax and Adam Smith’s Four Tax Cannons

#1 Certainty

Tax which each individual is bound to pay ought to be certain, and not arbitrary”

Property Tax Rating: HIGH
Property Tax and Adam Smiths
Four Tax Cannons

#2 Convenience

“Levied at a time or in manner in which it is most likely to be convenient for the contributor.”

Property Tax Rating: OK

Property Tax and Adam Smiths
Four Tax Cannons

#3 Economy/Efficiency

“To be so contrived as both to take and keep out of the pocket of the people as little as possible, over and above what it brings into the public treasury...”

Property Tax Rating: LOW
Property Tax and Adam Smiths Four Tax Cannons

#4 Equality/equity

“... Subjects contributing as nearly as possible in proportion to their respective abilities that is in proportion to the revenue (benefits) which they respectively enjoy under the protection of the state.”

Property Tax Rating on:
Ability to pay: ?
Benefits Received: ?

Distribution of Assessed Value by Class: Nebraska 2010

- Residential, 47.7%
- Commercial, Industrial, Mineral, Railroad, 18.7%
- Ag, 28.5%
- Other, 5.2%
Ag Portion Breakdown on Property Assessment, 2010

- Ag land, 25.4%
- Ag Improvements, 1.33%
- Ag Personal Property, 1.76%

Source: Nebraska Department of Revenue

Ag a major share of total property assessment throughout much of non-metro Nebraska
Figure 1. Percent of Ag Land of Total Property Assessed Value, 2010

State: 25.4%

Greater than 50% in 60 Counties
Greater than 60% in 44 Counties

- Shaded counties > 50% Ag Land Portion

Source: Nebraska Department of Revenue-Property Assessment Division: 2010 Annual Report
Figure 2. Percent of Ag Portion of Total Property Assessed Value, 2010

State: 28.5%

- Shaded counties > 50% Total Ag Portion

Source: Nebraska Department of Revenue-Property Assessment Division: 2010 Annual Report

Total Ag Portion:

Greater than 50% in 66 Counties

Greater than 60% in 56 Counties
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Ag Land Valuation As Percentage to Total Annual Change in Assessed Value in Nebraska: 2000 to 2010

Ag Land Assessed Valuation Following Market Trends

% Change 2000 to 2010
Assessed Ag Land Value up 80%
Market Value of Ag:
  UNL Value per acre Up 102%
  USDA total value Up 123%
Possible Shifts in Near Term Future

- Existing Residential Market Values: Steady to down
- New Residential Construction: Slow
- Existing Commercial Property Market Values: Steady to Down
- New Commercial Property Construction: Slow
- Ag Land market: ??

Agriculture’s Share of Property Tax Burdon

<table>
<thead>
<tr>
<th>Category</th>
<th>2009</th>
<th>2010</th>
<th>% Change 2009-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ag Land</td>
<td>571.7</td>
<td>631.8</td>
<td>10.5</td>
</tr>
<tr>
<td>Ag Improvements</td>
<td>31.7</td>
<td>33.2</td>
<td>4.7</td>
</tr>
<tr>
<td>Ag Personal Property</td>
<td>41.0</td>
<td>43.9</td>
<td>7.1</td>
</tr>
<tr>
<td>Total Ag</td>
<td>644.4</td>
<td>708.9</td>
<td>10.0</td>
</tr>
<tr>
<td>State Total Property Taxes</td>
<td>2,876</td>
<td>2,991</td>
<td>4.0</td>
</tr>
</tbody>
</table>

4/26/2011
Distribution of Taxes Paid by Class: Nebraska 2010

- Residential, 51.3%
- Commercial, Industrial, Mineral, Railroad, 19.8%
- Other, 5.2%
- Ag, 23.7%

Distribution of Ag Portion on Property Taxes Paid, 2010

- 19.90% Ag Land
- 1.42% Ag Personal Property
- 1.10% Ag Improvements

Distribution of Taxes Paid by Class: Nebraska 2010

- Residential, 51.3%
- Commercial, Industrial, Mineral, Railroad, 19.8%
- Other, 5.2%
- Ag, 23.7%
Bottom Line:

- Ag portion was 23.7% of total property taxes paid in 2010
- Ag portion was 56.3% of total property tax increase from 2009 to 2010!

Good News!

Ted Turner is paying more property taxes!

Bad News!

So are all the other ag property owners!
Tax increases **NOT** lock step with higher assessed values.

BUT - - -

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**How are property taxes used?**

The Question of Fairness

- **Schools**, 59%
- **County**, 16%
- **City/Village**, 11%
- **Other**, 9%
- **Community College**, 4%
- **Fire**, 1%

*Taxes by Taxing subdivision 2010: NE Department of Revenue*
Ag Property Taxes Relative to Benefits/Services Received

<table>
<thead>
<tr>
<th>Category</th>
<th>Relative Fairness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire Protection</td>
<td>4</td>
</tr>
<tr>
<td>County Services</td>
<td>4</td>
</tr>
<tr>
<td>Natural Resource District</td>
<td>4</td>
</tr>
<tr>
<td>Community College</td>
<td>3</td>
</tr>
<tr>
<td>K-12 School District</td>
<td>2</td>
</tr>
</tbody>
</table>

Bottom Line:

- Agricultural community’s share of K-12 educational support is excessive (and unfair) relative to benefits received.
- In essence, the rural agricultural land base is subsidizing the process of educating our young people and largely to the ultimate benefit of distant urban centers who are the recipients of those educated, productive young adults.
Logical Policy Responses

#1 State-aid to education

- Move toward a larger share of state funding
- Some progress, but politically difficult to shift tax burdens

Still, Nebraska ranks 42nd in percentage of state share of elementary and secondary education financing

<table>
<thead>
<tr>
<th>State</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>NE</td>
<td>36%</td>
</tr>
<tr>
<td>U.S. Average</td>
<td>47%</td>
</tr>
<tr>
<td>Iowa</td>
<td>46%</td>
</tr>
<tr>
<td>Missouri</td>
<td>33%</td>
</tr>
<tr>
<td>Kansas</td>
<td>58%</td>
</tr>
<tr>
<td>Colorado</td>
<td>43%</td>
</tr>
<tr>
<td>Wyoming</td>
<td>49%</td>
</tr>
<tr>
<td>South Dakota</td>
<td>33%</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau 2010 Statistical Abstract
Nebraska’s School Aid Formula

**State Funded $ = $ Needs - $ Capacity**

Where:

$ Needs = Student numbers in district

$ Capacity = Assessed value base in district

Implications:

Relative↑ in assessed values ➔ ↓ state aid to district

Logical Policy Responses

#2 Change Assessment Rate on Agricultural and Horticultural Land

Currently at 75% of actual value.

Move to: 70% or every 65% of actual value.

Implications:

Two-fold effect

1st, reduce ag portion in respective tax jurisdiction

2nd, trigger state school aid formula to send more $ to school district
Shift of assessment rate on agriculture and horticultural land

– Most straight-forward
– Most politically acceptable
– Step toward re-balancing our tax burden

On a final note:

“If you make any money, the government shoves you in the creek once a year with it in your pockets, and all that don’t get wet you can keep.” --- Will Rogers

“Taxes after all, are dues that we pay for the privileges of membership in an organized society.” --- Franklin D. Roosevelt