

Agricultural Real Estate and The Property Tax Dilemma

By

Bruce B. Johnson
Department of Agricultural Economics
University of Nebraska-Lincoln
bjohnson2@unl.edu
402-472-1794

Originally Presented to the Nebraska Chapter of American Society
of Farm Managers & Rural Appraisers

Updated April 2011

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

- Advalorem 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

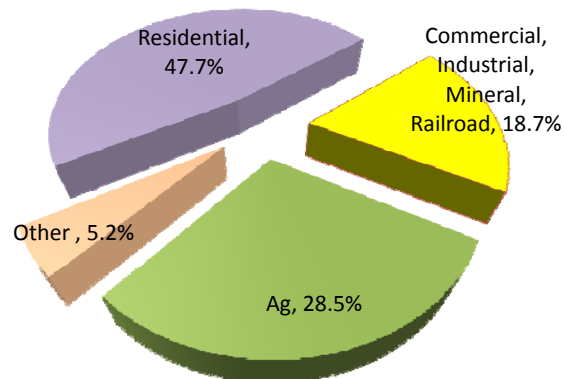
“... Subjects contributing as nearly as possible in proportion to their respective abilities that is in proportion to the revenue (benefits) which they respectively enjoy under the protection of the state.”

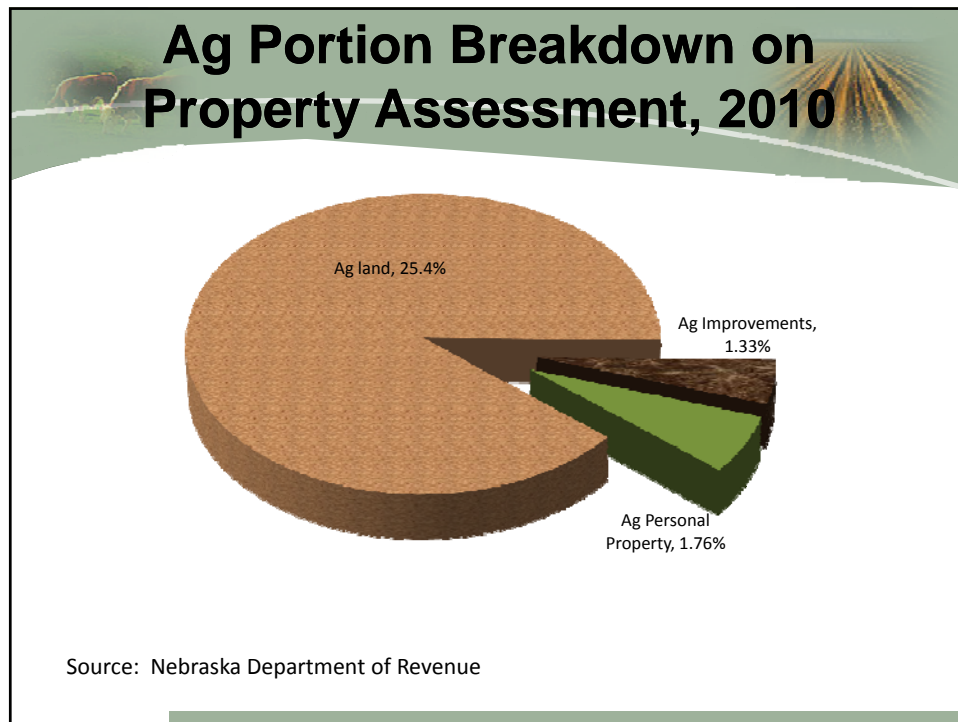
Property Tax Rating on:

Ability to pay: ?

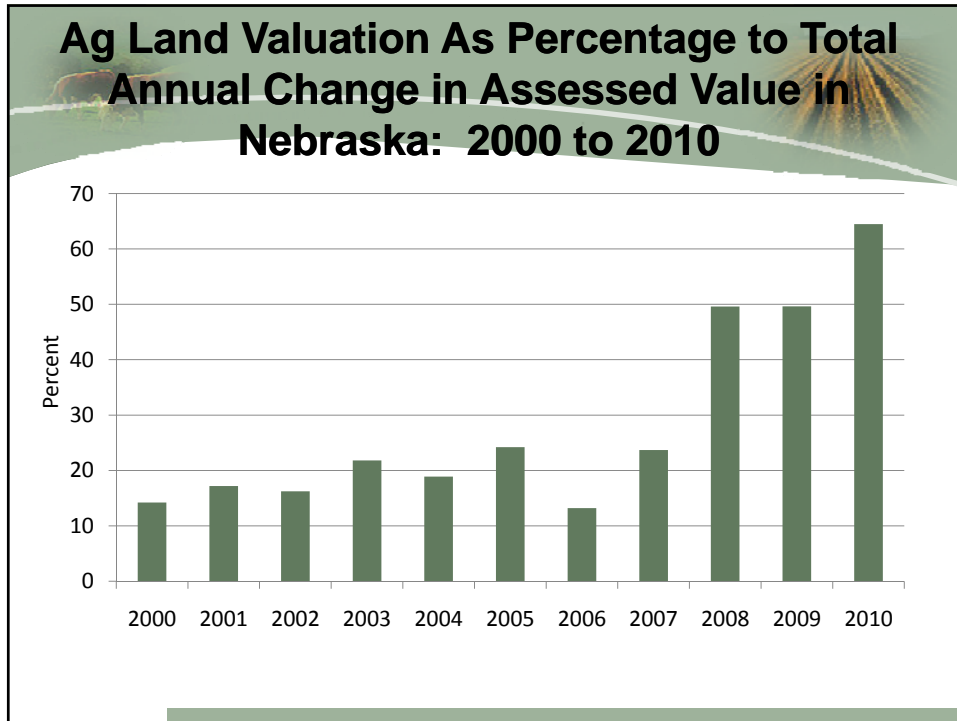
Benefits Received: ?

Distribution of Assessed Value by Class: Nebraska 2010





Ag a major share of total property assessment throughout much of non-metro Nebraska



Ag Land Assessed Valuation Following Market Trends

% Change 2000 to 2010

Assessed Ag Land Value up 80%

Market Value of Ag:

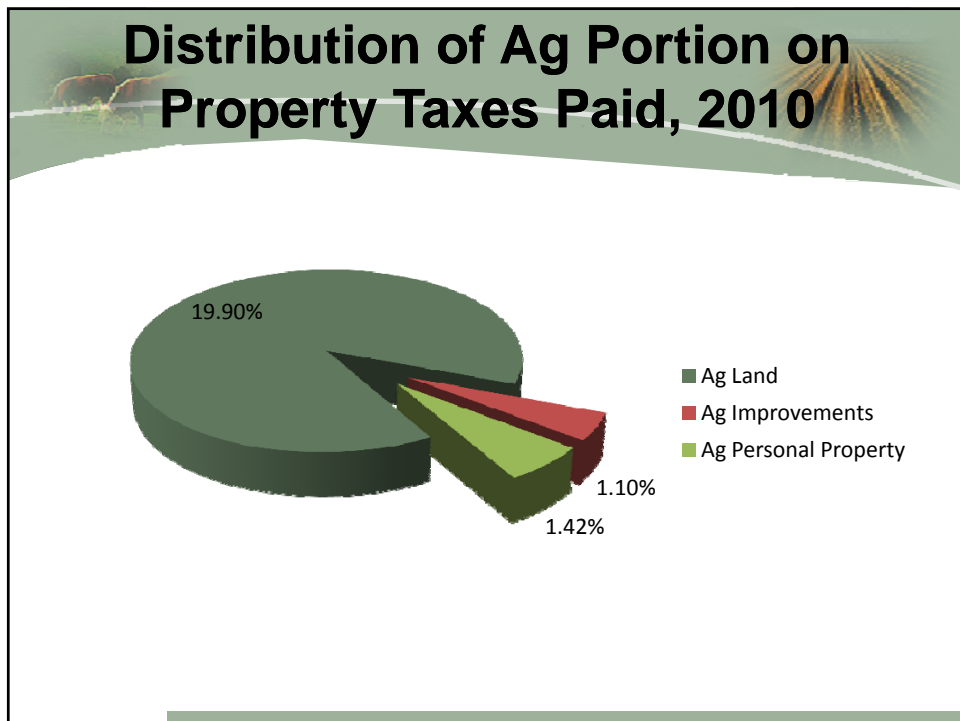
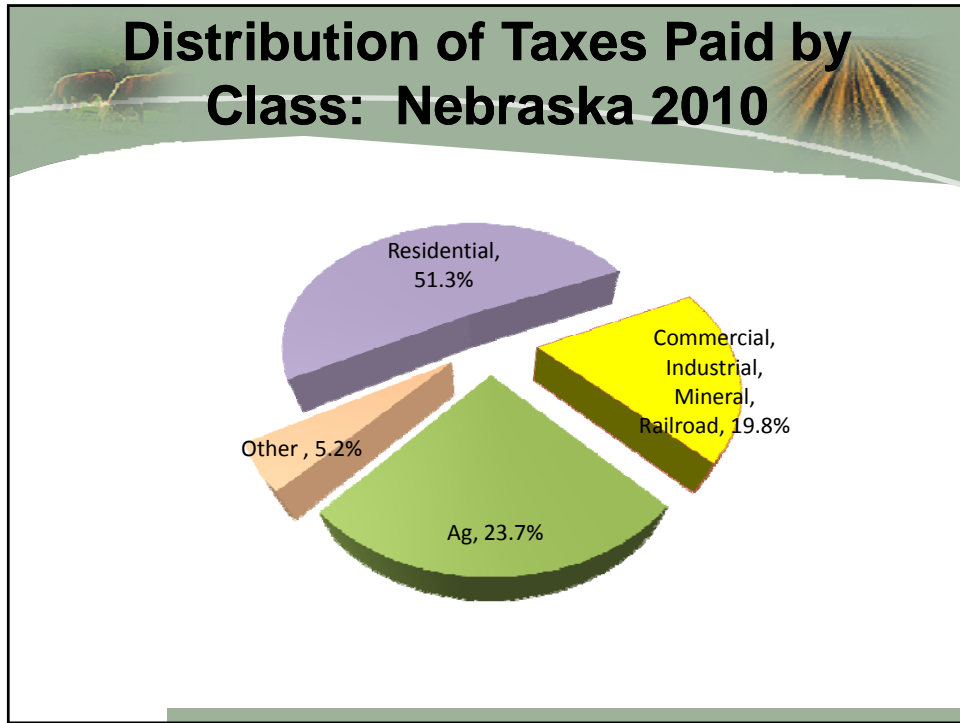
UNL Value per acre	Up 102%
USDA total value	Up 123%

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 Burden

Category	2009	2010	% Change 2009-2010
	----- Million \$ -----		%
Ag Land	571.7	631.8	10.5
Ag Improvements	31.7	33.2	4.7
Ag Personal Property	41.0	43.9	7.1
Total Ag	644.4	708.9	10.0
State Total Property Taxes	2,876	2,991	4.0





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!

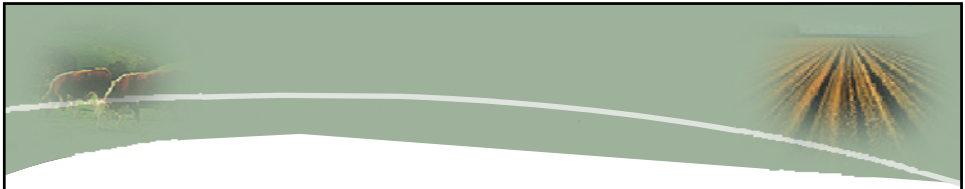


Good News!

Ted Turner is paying more property taxes!

Bad News!

So are all the other ag property owners!

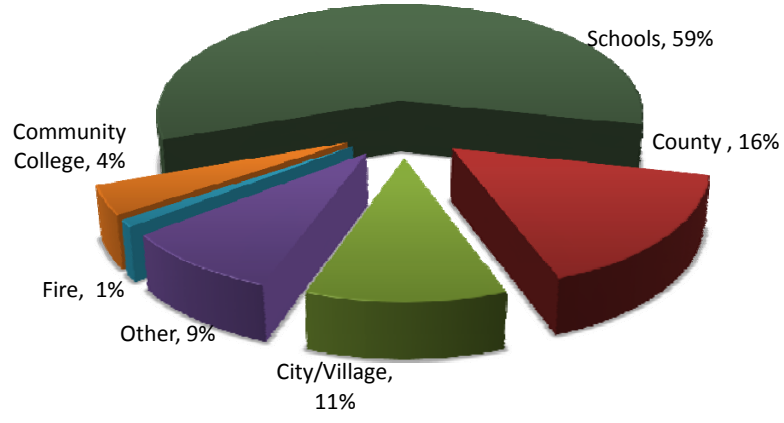


Tax increases **NOT** lock step with higher assessed values.

BUT - - -

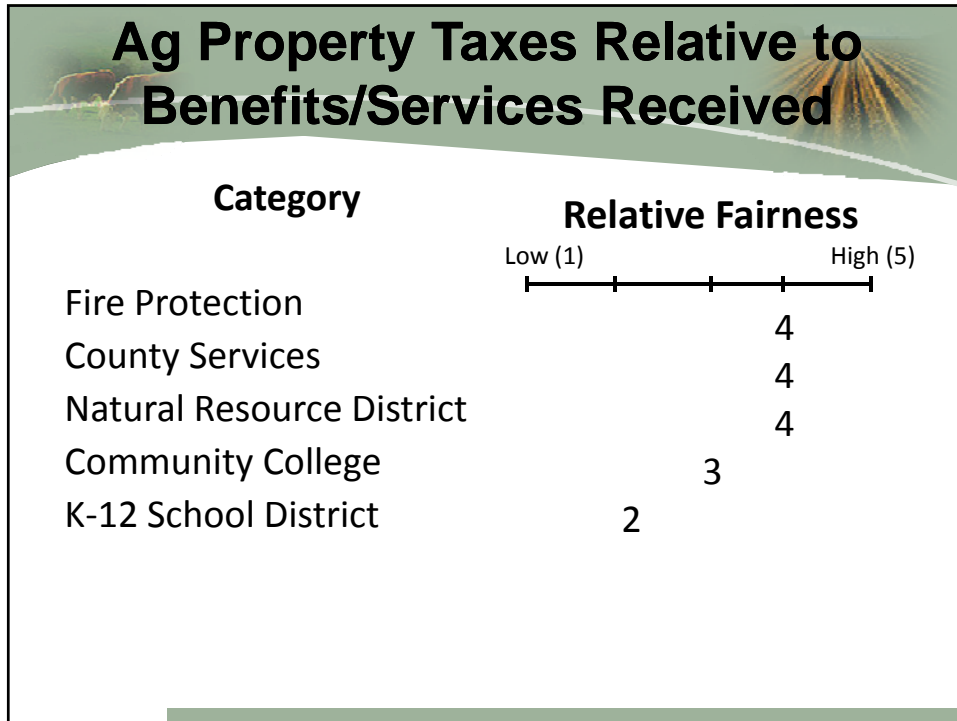
How are property taxes used?

The Question of Fairness



Subdivision	Percentage
Schools	59%
County	16%
City/Village	11%
Other	9%
Community College	4%
Fire	1%

Taxes by Taxing subdivision 2010: NE Department of Revenue



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

NE	36%
U.S. Average	47%
Iowa	46%
Missouri	33%
Kansas	58%
Colorado	43%
Wyoming	49%
South Dakota	33%

Source: U.S. Census Bureau 2010 Statistical Abstract

Nebraska's School Aid Formula

$$\text{State Funded } \$ = \$ \text{ Needs} - \$ \text{ Capacity}$$

Where:

\$ Needs = Student numbers in district

\$ Capacity = Assessed value base in district

Implications:

Relative \uparrow in assessed values \rightarrow \downarrow 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