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Agricultural Property and Property Taxation

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CORNHUSKER ECONOMICS

UNIVERSITY OF
Nebraska
Lincoln

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Institute of Agriculture & Natural Resources
Department of Agricultural Economics
<http://www.agecon.unl.edu/Cornhuskereconomics.html>

Agricultural Property and Property Taxation

| Market Report | Yr Ago | 4 Wks Ago | 9/4/09 |
|--|-----------|--------------|---------|
| <u>Livestock and Products,</u> | | | |
| <u>Weekly Average</u> | | | |
| Nebraska Slaughter Steers, 35-65% Choice, Live Weight | \$98.22 | \$81.14 | \$83.45 |
| Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb. | 123.06 | 120.38 | 112.36 |
| Nebraska Feeder Steers, Med. & Large Frame 750-800 lb. | 113.93 | 104.99 | 102.85 |
| Choice Boxed Beef, 600-750 lb. Carcass. | 159.05 | 141.49 | 142.83 |
| Western Corn Belt Base Hog Price Carcass, Negotiated. | 71.85 | 48.38 | 49.65 |
| Feeder Pigs, National Direct 50 lbs, FOB. | 30.26 | * | 32.00 |
| Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean. | 77.37 | 56.62 | 55.02 |
| Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct. | 96.62 | 96.50 | 91.13 |
| National Carcass Lamb Cutout, FOB. | 274.80 | 253.52 | 251.28 |
| <u>Crops,</u> | | | |
| <u>Daily Spot Prices</u> | | | |
| Wheat, No. 1, H.W. Imperial, bu. | 6.69 | 4.25 | 3.74 |
| Corn, No. 2, Yellow Omaha, bu. | 5.22 | 3.01 | 3.03 |
| Soybeans, No. 1, Yellow Omaha, bu. | 11.70 | 11.54 | 9.25 |
| Grain Sorghum, No. 2, Yellow Dorchester, cwt. | 8.02 | 5.12 | 4.75 |
| Oats, No. 2, Heavy Minneapolis, MN, bu. | * | 2.09 | 1.97 |
| <u>Feed</u> | | | |
| Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton. | 190.00 | * | * |
| Alfalfa, Large Rounds, Good Platte Valley, ton. | 77.50 | * | 82.50 |
| Grass Hay, Large Rounds, Premium Nebraska, ton. | 85.00 | * | * |
| Dried Distillers Grains, 10% Moisture, Nebraska Average. | 169.00 | 85.00 | 78.00 |
| Wet Distillers Grains, 65-70% Moisture, Nebraska Average. | 57.75 | 32.25 | 34.00 |
| *No Market | | | |

One entry sure to win most **liars' contests** is the one about the farmer who was asked about his property taxes and he replied "*no comment.*" Farmers and other owners of agricultural real estate have always grumbled about property taxes. And here in Nebraska, the concern seems to be even more than elsewhere.

Why is this? While some would suggest that the philosophy of the agricultural community is basically "anti-tax," this argument does not hold much merit. Farmers and other members of the agricultural community tend to be strong community citizens and willing to contribute actively to their communities. They realize paying their **fair** share of taxes is part of responsible citizenship.

But perhaps the key to the widespread disgust over property taxes is that word: **fairness**. So let's put some perspective on the role of agricultural assets in the property tax system across the state. Since the property tax is relied on heavily for local governments, with K-12 public school districts being the primary users, it is important to understand how the relative tax burden falls on agricultural assets relative to other asset owner classes.

Using Nebraska Department of Revenue data from its 2008 Annual Report, one can examine county-level breakdowns of assessed value into the major property classes. These classes are: agricultural land; commercial, industrial, and mineral; residential; agricultural outbuildings and farm sites; agricultural machinery and equipment; commercial and industrial equipment; public service entities; and railroads.

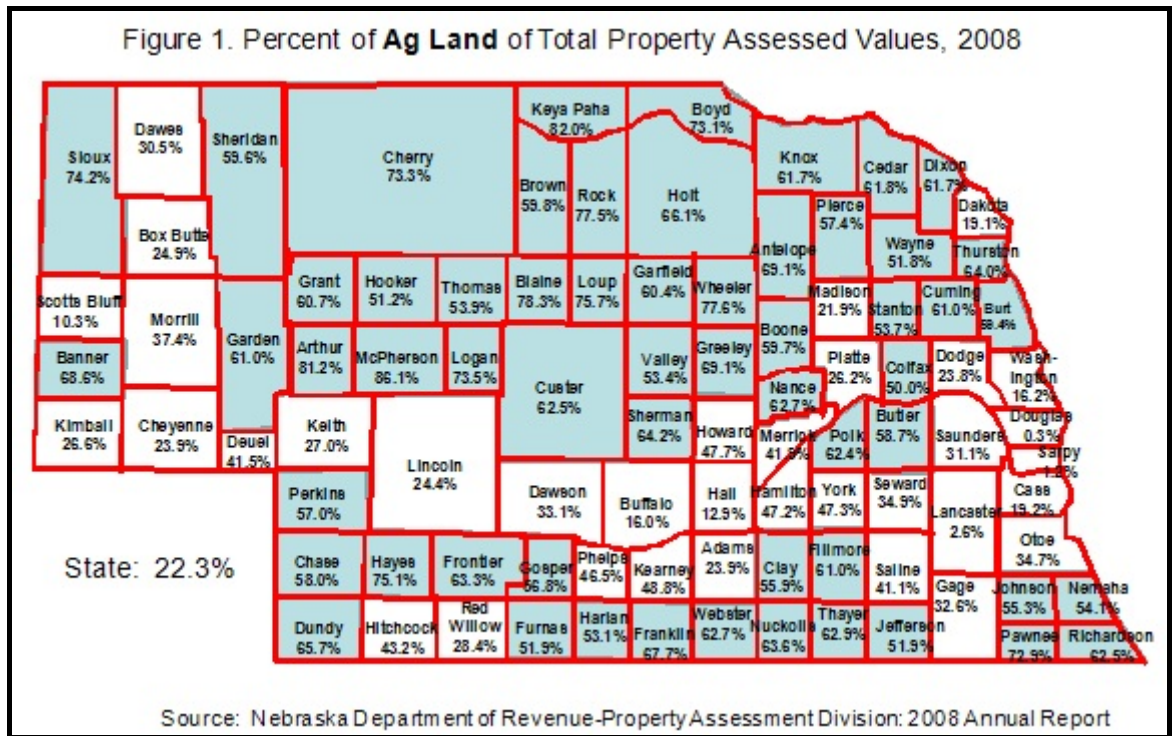
For 2008, the agricultural land class for the state as a whole had a value of \$31.2 billion, which constituted 22 percent of the total assessed value of all property for tax purposes (Figure 1 on next page). However, in 58 of the state's 93 counties, the agricultural land class constituted the majority of the county's total assessed value. In fact, in 38 counties the agricultural land class accounted for more than 60 percent of total assessed value for property tax purposes.



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In short, agricultural land constitutes a very prominent part of the underlying asset base for property taxation across a large part of the state. And given the dramatic increases in agricultural real estate values since 2004 (while other real estate classes have remained relatively stable in value), this prominence has only exacerbated in recent years.



While tax levies vary across the asset classes depending on public services provided – for example, municipal services do not tax agricultural property outside the municipality – still, there are many components that do levy taxes against all the classes. For many of the services, it seems quite appropriate given the benefits received to the property from those services. Roads and bridges, police and fire protection, natural resource management and conservation, etc., benefit the owners of all property classes; and thus, a universal levy against the assessed property value is relatively fair and appropriate. Even a universal levy for the provision of community colleges seems logical since the economic climate of the total area will tend to be enhanced.

But the sticky issue for the agricultural community lies with the tax burden for K-12 public education that typically commands 60 percent or more of the total annual levy assigned against assessed value in the particular school district. To be sure, kids of farm families are receiving public education just as their non-farm counter-parts; but given the typical array of assets in most non-metropolitan school districts, the disparity of tax obligation for K-12 educational services across the relative households is considerable. Furthermore, property taxes come due each year whether there has been income generated from the agricultural property or not. Bottom line: on the basis of benefits received as well as ability to pay (in terms of annual income), the agricultural community can make a strong case that their share of the K-12 educational support is excessive and *unfair*.

Of course, meaningful tax reform is a complex and most difficult political process – with tax relief for one stakeholder group invariably suggesting tax increases for another. Nevertheless, the distortions discussed above may

well suggest it is due time to take such action. Two policy changes could be considered. One would be to assess agricultural land at a rate lower than the current mandate of 75 percent of market value. Assessing at 65 percent, or even 55 percent of market value would reduce agriculture’s relative tax burden some. Secondly, increasing the percentage of state aid to K-12 education (Nebraska ranks near the bottom) would help to re-balance the current disparity. But this result would happen automatically under the current school finance formula used by the State of Nebraska, which simply stated is: Needs minus Capacity equal State Aid. Since capacity is measured in large part by examining taxable valuation, and taxable valuation would be reduced in school districts with agricultural land, more state aid than existed prior to this change would be the result for that school district.

Until such time meaningful tax reforms are made, bear with the grumblings about property taxes from the agricultural community. They have a very strong case for their grumbling.

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