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Farmland taxation: Is it equitable?

By Gene Wunderlich and John Blackledge

The annual \$5 billion of real property taxes on farmland in the United States equals about one-fifth of the return on farmland. The revenue from this tax has an important bearing on public services, such as schools. Two-thirds of local tax revenue—and over 40 percent of *all* local revenue—comes from the real property tax.

The real property tax is a major factor in the level of dependence of local governments on state and federal government.

Satisfaction with the real property tax depends a great deal on whether taxpayers perceive it as fair and equitable. To many, fairness and equitability mean a tax proportional to the value of the property. Deviation from that proportionality

might be seen as justified for some other specific objective such as farmland or open-space preservation.

Data from a

recent survey of farmland ownership by the Census of Agriculture suggest that the effective rates of taxation are far from directly proportional—high-value holdings pay lower rates than low-value holdings.

The Census obtained reports of taxes paid and estimates of land values on the whole farmland holdings of 80,000 owners. Survey results revealed that tax rates on the highest value class of holdings averaged about one-third the rates on the

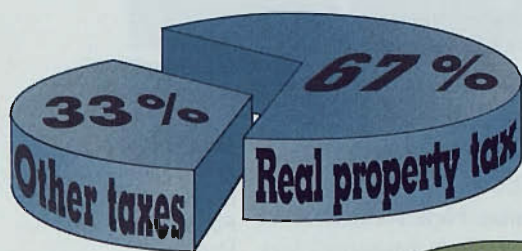
lowest value class. As a class, owners with farmland holdings with a total value of \$70,000 or less represented 36 percent of owners, but held only 6 percent of the value of holdings, and paid 11 percent of the real property taxes. At the other extreme, owners with holdings totaling \$5 million or more represented only 0.2 percent of the owners but held 9 percent of the value of holdings, and paid only 5 percent of the real property taxes.

Why are the tax rates on high-value holdings disproportionately low? We first thought that our national statistics might reflect a “state effect,” because state law governs property tax rates. A state effect results from a concentration of high-value holdings in low tax-rate states, and a concentra-

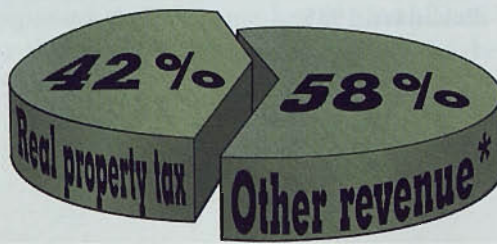


Real property taxes as a percentage of local revenue

The real property tax supplies two-thirds of local tax revenue...



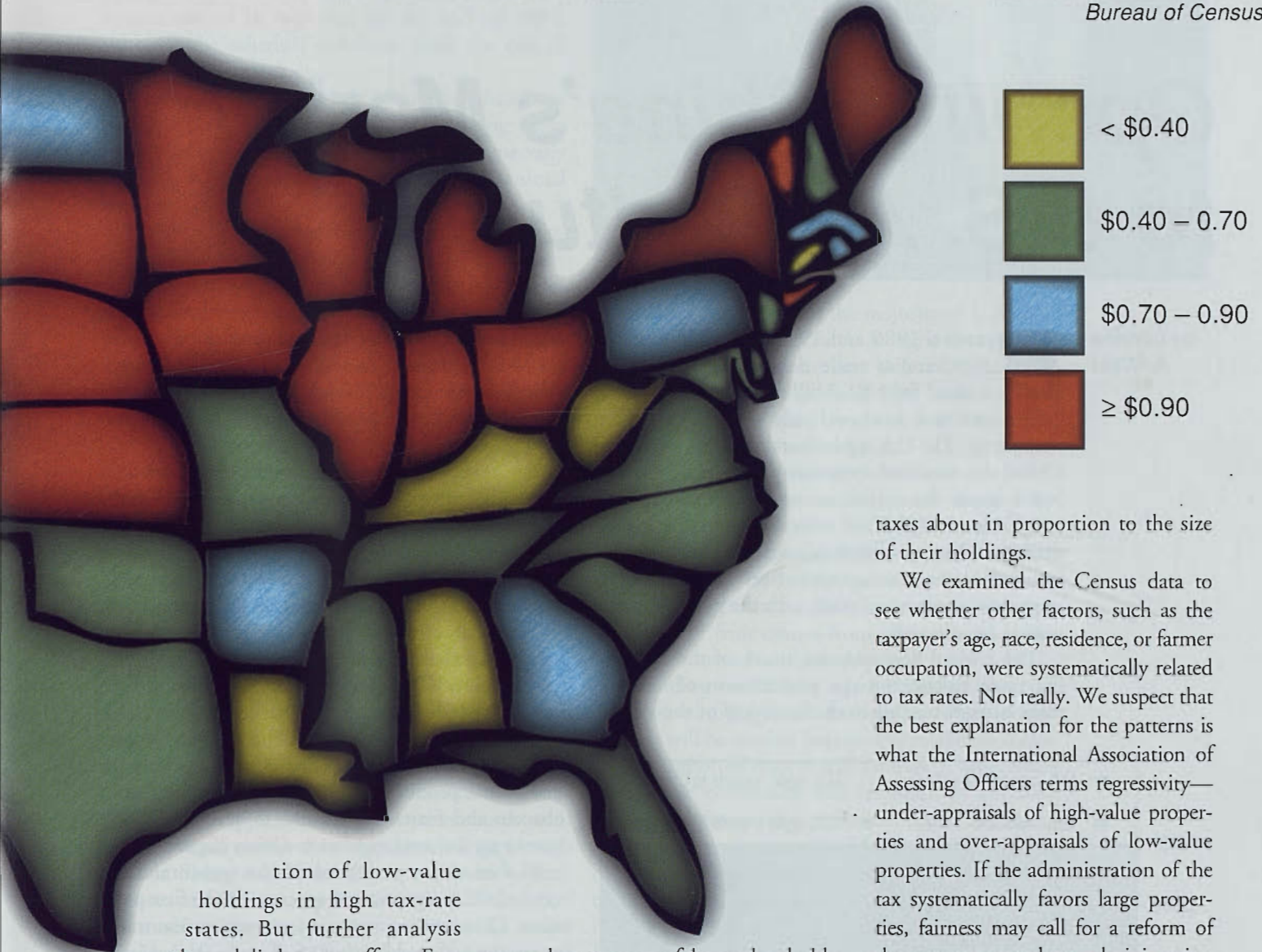
and over 40 percent of all local revenue.



* Includes fees, fines, and charges

Farm real estate taxes per \$100 of market value

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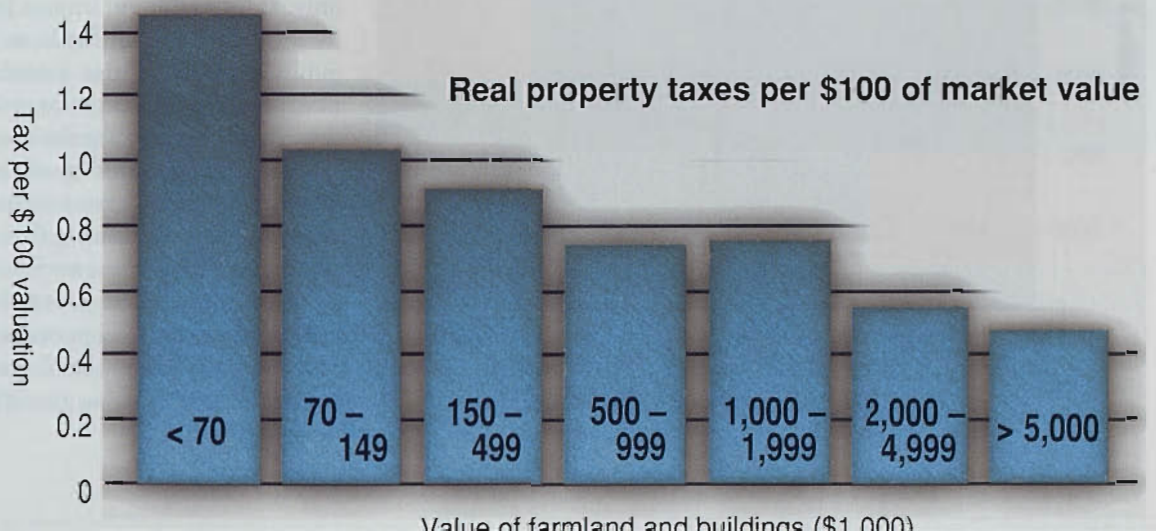
taxes about in proportion to the size of their holdings.

We examined the Census data to see whether other factors, such as the taxpayer's age, race, residence, or farmer occupation, were systematically related to tax rates. Not really. We suspect that the best explanation for the patterns is what the International Association of Assessing Officers terms regressivity—under-appraisals of high-value properties and over-appraisals of low-value properties. If the administration of the tax systematically favors large properties, fairness may call for a reform of the assessment and tax administration processes.

tion of low-value holdings in high tax-rate states. But further analysis showed little state effect. Furthermore, in all but nine states,

taxes than owners of low-value holdings, and in five states owners paid

owners of high-value farmland holdings paid markedly lower tax rates than owners of low-value holdings. In only four states, owners of high-value holdings paid higher rates of



Value of farmland and buildings (\$1,000)