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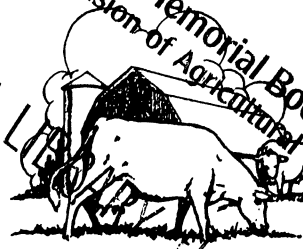
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MINNESOTA farm business NOTES



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PROPERTY TAXES AND THE MINNESOTA FARMER

H. W. Baumgartner and P. M. Raup

Over the past half century two major trends have characterized the property tax in Minnesota: It has been a declining fraction of total state and local tax revenue, and it has become almost entirely a source of local revenue. Very little property tax revenue flows to the state. In 1903 property taxes amounted to \$17 million and accounted for about 90 percent of state and local revenue. In 1957 they amounted to \$372 million, or approximately 57 percent of total state and local revenues.

Much of the increased need for public revenue has been met from other taxes, particularly the excise taxes (gasoline, tobacco, alcoholic beverages) and (since 1933) the state income tax. Revenues from these types of taxes were \$2 million in 1903 and \$278 million in 1957.

These tax trends reflect the urbanization and industrialization of Minnesota's economy. As a result, governmental revenues are derived increasingly from income and personal expenditures rather than from property. Since the state can administer excise and income taxes most efficiently, it is logical that the state concentrates on these revenue sources and leaves most of the field of property taxation to local government. The state's share of total property tax collections has declined from 49 percent in 1903 to about 5 percent in 1957.

The U.S. Department of Agriculture estimates that Minnesota real estate taxes per acre of farm land have doubled since World War II. During the same period farm land values have also doubled, which means that real estate taxes per \$100 of value of farm land have remained remarkably stable. This does not mean that rising property taxes have not seriously burdened many farmers. In the past five years, land values and property taxes have risen steadily while net farm income has lagged far behind.

Data taken from the records of 165 farms in the Southeast Minnesota Farm Management Service shed some light. They show that during the past decade the average market value of the farms, excluding the homes, rose from \$25,750 to \$48,800 and the value of farm personal property rose from \$12,600 to \$24,600. Farm personal property represented 55 percent of the average market value of the farms in 1947, rose to 60 percent in 1951, then dropped back to 50 percent between 1955 and 1957. Thus, the value of farm real estate rose faster than the value of farm personal property.

Real estate taxes rose for these 165 association members from an average of \$281 per farm in 1946 to \$666 in 1957, while the personal property tax rose from \$56 to \$168. Personal property taxes have increased more rapidly than farm real estate taxes. In 1946, taxes on personal property represented 16.6 percent of the total farm property tax; since 1951 they have risen to over 20 percent.

One of the merits of the property tax is that it provides a stable source of revenue for local governments. For the individual taxpayer this same feature also tends to aggravate the swings of the business cycle. The property tax burden becomes relatively lighter when incomes are high and rising, and heavier when incomes are low and falling. The property tax thus may sometimes encourage exploitative farm practices, impair the ability to maintain soil fertility, and retard improvement of the farms.

The differential impact of farm property taxes among high and low income farmers has not been sufficiently recognized. In recent years the income gap between the upper and the lower fifth of the 165 association members has widened. Continued high earnings in the upper fifth have held property taxes to a tolerable level. Even for this upper

Table 1. Average Property Taxes Paid by Income Class, 1954, S.E. Minnesota Farm Management Association Members

Net income class	Farm property tax	Property tax as percent of net income
	dollars	percent
Less than 2,000	560	41.9
2,000-3,999	539	15.2
4,000-5,999	634	11.3
6,000-7,999	684	9.1
8,000-9,999	718	7.8
10,000-11,999	703	6.1
12,000 and over	1,158	6.8

one-fifth, property taxes as a percentage of net farm income rose from 3 percent in 1947 to their present level of between 7 and 10 percent. In 1947 the one-fifth of association members having the lowest net income paid property taxes of about 6 percent of their net income. In 1956 that percentage rose to 21 percent and in 1957 their tax bill exceeded net income.

Table 1 shows how farm property taxes weigh against net incomes among association farmers.

At the \$6,000 income level the average property tax bill is about 10 percent, higher incomes pay lower and lower incomes pay higher fractions. Table 2 shows average tax bills by type of farming.

The tax burden calculated on a net income basis is lowest in specialized types of farming, which usually include large and well-managed farms. General types of farming, which frequently include smaller farms, carry an above-average tax burden. As would be expected, personal property taxes are higher for predominantly livestock enterprises than for crop farms.

A regional comparison of property taxes shows that taxes per \$100 of land value are highest in northern Minnesota and lowest in southern Minnesota. For example, in 1955 property taxes were \$5.85 per \$100 of land value in

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NEW HIGHWAYS AND THE FARMER

James Schwinden and Philip M. Raup

During the next few years many farmers will experience the impact of our developing interstate highway system. A clear understanding of some of the problems and irritations that may be involved should prompt corrective measures for adjusting to those impacts. Some problems require patience and a willingness to adjust by the property owner or operator. Others may call for adjustments in land acquisition procedure. Still others, such as granting the highway authority to take lands in excess of actual highway needs, will require legislative action.

To highlight these impacts and problems here is a case study of the direct effects of the interstate highway upon a farm in the path of a new route.

In this case, the new highway location cut diagonally through a corner of a 190-acre farm, taking 20 acres for right-of-way and leaving a remnant tract, separated from the farmstead. The general reactions of the farmer to this land taking were mixed. On the one hand, he was satisfied that the valuation of the 20 acres actually taken was fair, and he had confidence in the men making the appraisal.

On the other hand, operating a divided farm introduced a number of problems. Along with the loss of 10 percent of his acreage, the separation required a change in his crop rotation system. His farmstead and 110 acres were left on one side of the highway and about 60 acres on the other side. Because he can neither pasture the 60 acres nor haul manure to it, he is forced to use commercial fertilizer exclusively on this tract.

Hauling crops home from the 60 acres is complicated and expensive. Although the tract is "across the road," he must drive seven miles to reach it. Traveling public highways, his trailers require licenses. Gasoline used for farm purposes and eligible for tax refund is now being used in part on public roads so a portion of the tax becomes nonrefundable. The farm machinery must all be mounted on rubber tires and it now must move with the traffic on a highway that it previously had only to cross. The risk of accident increases, and with it, the cost of insurance.

Previously the farmer could turn off his tractor at noon and walk across the fields to a hot lunch at home. Now, when working on this tract, he must

carry his lunch or have it brought to the field. A sudden shower, drenching him within sight of a home "seven miles away" is bound to dampen his enthusiasm for a modern highway facility. None of these irritations to farm operations is, in itself, a calamity. However, taken together they represent time-consuming and costly adjustments in farm operations.

Other dissatisfactions arose out of the process of taking the land. The design of the highway was changed after the determination of damages was made. An underpass, planned nearby, was eliminated and to meet interstate standards the highway right-of-way was fenced to convert it into a full barrier. This was not contemplated at the time of the award and was not considered in appraising damages.

The legal description of the land to be taken was drawn, as prescribed by law and custom, in an involved legal form. Confronted with a legal description involving unfamiliar language and a complicated highway design blueprint, the farmer had to visualize the changes in his fields in order to evaluate the damages he might suffer. He was often understandably confused.

Lastly, he was not immediately assured that the loss of a portion of his farm would be reflected in a lowered property tax assessment, nor was it clear to him whether the state took title or merely exercised an easement on the land required for the right of way.

The law and the condemnation procedures of the highway authorities are designed to provide full information to individuals and communities affected by highway changes. Before the route is set through the issuance of the Commissioner of Highway's right of way order, informal public meetings are usually held to permit public discussion and route planning. Also before the route is fixed, a formal public hearing is held to provide the community with an opportunity to review and be heard concerning the proposed improvement.

Following the hearings, the court appoints commissioners to appraise the land to be taken and the damages sustained by the property owners. They first estimate the present value of the land actually taken, then proceed to estimate any severance damages.

Appraisals of severance damages take into account the breaking up of a farm, disruptions to the cropping system, forced changes in the type of farming,

and the increased costs of machinery operation on triangular or odd-shaped fields. Reduced usage of farm buildings due to decreased farm acreage and various encroachments such as taking windbreaks, parts of a yard, shade trees, or driveways are also considered. Every effort is made to take into account all justifiable forms of damages sustained.

Frequently problems arise involving the allocation of the present value of unexpired leases. Sometimes improvements to the farm made by a renter, such as unexhausted fertilizer investments, are taken. Damage awards normally are paid to the land owner, and the award must then be divided between tenant and landlord. Complex problems of this nature also arise if the land is part of an unsettled estate.

Minnesota laws with respect to personal property often work serious hardship. The state is not permitted to acquire personal property involved in condemnation cases nor pay damages sustained by it. When the operator of the business or a farm is not the owner, the operator is denied damage awards for personal property which he owns and must move.

From this comprehensive set of statements, simple remedies emerge for some of the problems. For example, aids in visualizing the completed highway and a clearly marked proposed right of way could be prepared and would be helpful to both owner and appraiser. Prompt recording of the transaction and recognition by the assessor of the changed tax status are worthwhile procedural improvements.

There are instances where it might be advisable to permit the reopening of settled cases. Substantial changes in highway design made subsequent to the award of damages could be cause for such reopening.

A method enabling the highway authorities to take lands in excess of the minimum needs for the highway would avoid creating isolated and odd-shaped remainder parcels. These tracts taken in the condemnation proceedings could be resold after the highway was completed.

Action by the Legislature is needed to resolve the complex legal questions concerning the condemnation of land in excess of actual highway needs. Similar action would be necessary to permit compensation for damages to personal property, or to enable the reopening of

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closed cases where highway design has changed substantially.

Viewed in more general terms farmers will experience two major effects of the highway program. A "taking" effect arises from the process of land acquisition. Clearly, the "taking" effects are felt primarily by the land owner directly affected and are felt most acutely during the period when the land is actually being taken.

A "barrier" effect, as already noted, will be felt in farm operations and will spread, in varying degrees, throughout the community. Service provided along collection or distribution routes involv-

ing school children, milk, and mail will be disrupted. Each of these can be adjusted as the old and the new highway systems are meshed together. The process of adjustment will unquestionably give rise to numerous irritations. The adjustments faced by the farmer or land owner are more immediate; the adjustments faced by the community are complex and long lasting.

What are the positive advantages of the interstate system for the farmer? One is direct but relatively limited in distribution, the other is indirect but unlimited as it is distributed.

The direct but limited effects operate primarily by expanding the range of the land market. A broader range of different land uses becomes possible for land in the area of the new highway. Increasing mobility of persons and goods extends the horizon within which economic activity can take place.

Mobility also works on the supply side of the land market. Land once eligible only for a single use, for example farming, becomes eligible for possible residential, commercial, industrial, or recreational use. Property which

can serve several uses enjoys a more favorable market than does property having but a single use. Modernized highways spread these advantages extensively into rural areas.

Not all lands are situated to permit an immediate change of use. The increase in mobility may be reflected in an upward trend in net income, a result of reduced transportation costs. This advantage to agriculture cannot be accurately estimated. It will appear in truck freight rate adjustments, service flexibility, speed in handling, and improved access to more distant markets. All of these are enhanced by an improved highway network.

The effects of the interstate highway system on the farmer will depend primarily on his location. Some farmers will feel the direct effects and experience the adjustments. Many more will share generally in faster and cheaper movements of their products to markets. As a major part of the motoring public, we can expect rural people to be among the principal beneficiaries of the improved highways that the next decade will bring.

(Continued from page 1)

northwestern Minnesota, but only \$1.76 in the southwestern part of the state. Comparing regions on a net income basis yields a similar pattern. The previous observation that property taxes burden low-income farmers more than they do high-income farmers is valid not only among individuals but also when the more and the less prosperous farming regions are compared.

Problems in Property Tax Assessment

1. A major problem in property taxation is that low-valued lands are typically assessed at a higher proportion of their market price than are higher-valued lands. The consequences of the inequities in assessment of property in the same class of use are magnified by rising tax rates.

Numerous studies show up these inequities, not only in Minnesota, but

throughout the nation. They are due in part to the imperfection of the land market. Normally, there are too few property sales in any particular area at any one time to provide the assessor with a consistent notion of land values. Dealing more effectively with this situation calls for fewer, but better trained and better paid assessors. At present there are 2,700 tax assessors in Minnesota, and most of them work on a part-time basis.

2. Farm land is frequently assessed at a higher fraction of its market value than is urban, commercial, industrial, or residential property. Recent state-wide assessment sales-ratio studies conducted by the Minnesota Department of Taxation found: farm property was assessed at an average of 40 percent of its sales price, commercial property 32 percent, residential property 29 percent, and industrial property 28 percent.

These inequities in assessment levels shift property tax burden onto farmers from other classes of property.

3. The same kinds of inequities noted in connection with real estate taxes apply to the personal property tax. In addition, personal property is often very difficult to find and assess. A portion of the tax is levied against inventories of goods at an intermediate state of production, and they are valued on a single date (May 1). Inventory requirements vary widely throughout the year and differ markedly among different kinds of production. As a result, the burden often falls heavily on some types of "slow-maturing" livestock enterprises.

Taxes on both real and personal property have long been criticized on these grounds. It is easy to conclude that total inequity can be minimized by removing from the base those elements showing the greatest inequity. This conclusion is unjustified if the reduced property base must produce the same total revenues reached by increased mill rates or by replacement revenues from a levy against the purchase of inventory and improvement items. The strongest case for greater equity rests with a continuing effort to improve assessments and to bring the property tax base into closer conformity with market values.

Table 2. Average Property Taxes Paid by Type of Farming, 1954, Farm Management Association Members

Type of farming	Real estate	Personal property	Total property	Total property tax as percent of net income
		dollars	property	percent
General livestock	472	142	614	10.9
General dairy	460	120	580	10.8
General livestock and crops	695	145	840	10.3
Dairy and hogs	431	154	585	9.8
General beef	634	191	825	8.7
Hogs and crops	633	120	753	6.6
Average	532	155	687	9.8

The Outlook Corner — SOYBEANS

The annual production of soybeans in the United States increased from 78 million bushels in 1940 to 575 million last year—a seven-fold increase. Much of this increase was caused by an increase in acreage—from 4.8 million acres in 1940 to 14.6 million in 1958. But yields also increased from 16.2 bushels to 24.6 bushels per acre during this period. The rate of increase of soybean production in Minnesota far exceeded that for the United States. Here the increase was 70-fold—from about 0.8 million bushels in 1940 to nearly 54 million in 1958.

Expanded soybean production in the United States caused world production to increase since 1940. Production for countries outside the United States, however, declined.

Soybean supplies have increased more than demand in recent years. As a result, prices have weakened and carry-over supplies are mounting. Soybeans are becoming more dependent upon export markets.

Since 1947, midwest soybean crushers have had a fluctuating oil and meal market. For example, soybean oil accounted for only 37 percent of the total receipts for oil and meal in 1951 but rose to 55 percent in 1956.

The trends in disposition of soybean oil are shown in table 2. Nonfood uses of soybean oil have decreased since 1950 (see table 2). Food uses, principally shortenings and margarine, have risen steadily. Exports have risen sharply in the last two years. Of these exports, 67 percent were assisted by P.L. 480 in 1957-58, and 45 percent the preceding year which reflects a growing reliance on government supports.

For the longer term, the outlook for soybeans and soybean products is fairly encouraging since the U. S. exports of

all edible oilseeds and their products appears reasonably promising. Population increases and the upward trend in per capita consumption suggest an expanding market; also, it is not likely that foreign output will show any major sustained expansion. This does not mean, however, that there may not be times when we will have difficulty in moving large supplies. What it does mean is that in the long run U. S. exportable supplies, though large, should be able to move in export market outlets.

Table 2. Soybean Oil: Supply and Disappearance—United States, 1935-38

Year(s)	Supply*	Disappearance		
		Food	Nonfood	Exports
millions of pounds				
1935-39	314	210	43	6
1940-44	992	702	123	36
1945-49	1,937	1,194	233	136
1950-54	2,590	1,805	343	230
1955	3,003	2,309	341	134
1956	3,418	2,155	351	679
1957	3,708	2,296	321	685
1958	4,256	2,900	300	800

* Includes carry-over stocks.

MINNESOTA FARM PRICE INFORMATION

Prices received by Minnesota farmers and indexes of prices received no longer will be reported in *Minnesota Farm Business Notes*. All of these and additional information will be available in the *Minnesota Farm Price Report*.

This report will be released by the third day of each month; this means that Minnesota farm price indexes will be available almost a month earlier than in the past.

If you wish to receive the monthly issues of the *Minnesota Farm Price Report* send a letter or card with your name and address to:

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Cooperative Extension Work in Agriculture and Home Economics, University of Minnesota, Agricultural Extension Service and United States Department of Agriculture Cooperating, Skull Rufford, Director. Published in furtherance of Agricultural Extension Acts of May 8 and June 30, 1914.

Table 1. Soybeans: Supply and Disposition, Crop Years 1952-58, Year Beginning October

	1952-56 average	1957	1958 forecast
million bushels			
Crushed	259	354	375
Exports	57	86*	90
Seed and feed	24	28	31
Residual	5	1
Carryover	7	21	100

* In addition, soybean oil from about 75 million bushels and meal from about 13 million bushels also were exported.

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