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Farm real estate values  
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## THE VALUATION OF FARM REAL PROPERTY FOR TAXATION

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THE problem of the valuation of farm real property for taxation purposes in our states operating under the general property tax system, is one of approximating the intent of the law that all property shall be uniformly assessed on the basis of its true cash value. The law does not presume to go back of the cash value, or to prescribe the elements that must be taken into consideration in arriving at such a value. This stand is consistent with the basic economic theory that price is the resultant of the interplay of the forces of supply and demand under a system of *laissez faire* economy. The theoretical justification of the whole general property tax system seems to imply this idea.

The practical difficulties involved in the valuation of farm real properties for taxation purposes are of old standing. But the ever-increasing rural tax burdens, especially during the last fifteen or twenty years, accompanied by a general depression in agriculture during the decade just past, has thrown them into new relief.

During periods of light tax levies, even gross inequalities go unnoticed. Heavy burdens, on the other hand, give even the minor discrepancies a practical significance.

Investigations in the field of agricultural taxation carried on during recent years in a number of our states, indicate that general property taxes frequently take from one-third to two-thirds of the economic rent from farm land, and that in some instances, as high as ninety per cent and above, of the net returns from the land have been thus absorbed. A study made by the Division of Agricultural Finance of the Bureau of Agricultural Economics in the year 1921-1922, indicates that taxes per acre of farm land in the United States had increased about 125 per cent during the preceding eight years. A further increase, although one of less significance, has taken place during the succeeding eight years.

In the state of Oregon, a typical western state, total rural general property taxes increased from slightly over six million dollars in 1910 to more than eighteen millions in 1921, an increase of over 200 per cent, followed also by a further slight increase during the following six years. The rise in levies on actual values

over the same period—1910 to 1928—represented an increase of slightly more than 100 per cent. It is these heavy exactions that have created an absorbing interest in farm taxation.

The problems of land valuation for taxation purposes divide themselves into two major groups: (1) the valuation or assessment of farm property as compared with the valuation of urban property, and (2), the valuation or assessment of one parcel of farm real property as compared with the valuation of other parcels of farm real property. The former problem is generally significant only to the degree that general levies for state, county, and township purposes are uniformly imposed upon both rural and urban assessments, whereas the latter problem involves not only the allocation of the general state and county taxes, but the distribution of the local levies as well.

Various conditions and practices make for a lack of uniformity in assessments and hence for a lack of equality in the distribution of the tax burdens between rural and urban property holders. In the rural areas, real property constitutes the major portion of all taxable wealth and land constitutes the major portion of all real property. In urban communities, on the other hand, a large percentage of the taxable wealth is in the form of personal property, tangible, and intangible. Improvements on lands and lots in urban areas also represent a much larger percentage of all real property values than is true in the case of rural areas.

Personal property, particularly the intangible, which, according to the most reliable information available, equals, or exceeds in value that of urban real property, very largely escapes the assessors' rolls. The above is a generally accepted condition and needs no verification. It is also generally known that improvements on lands and lots are assessed at a considerably lower percentage of their actual value than are the lands and lots on which those same improvements are located. This practice, although contrary to the law, is an established practice and is openly admitted by most assessors.

The implications of the foregoing conditions and practices are apparent. Rural property is real and tangible and hence lies exposed to the assessor; much urban wealth, on the other hand, is intangible and therefore very largely escapes assessment and consequently taxation.

Improvements constituting a much larger percentage of the total real property values in cities than in rural communities, renders

the practice of over-assessing lands and lots as compared with the assessments of the improvements located thereon, advantageous to the cities in the payment of the general levies.

Another institution or practice, and one of constantly growing importance, inuring to the advantage of the urban taxpayers, is the total exemption by law of certain classes of property. We daily enjoy in our cities many direct utilities provided us through the use and operation of such totally tax exempt wealth. Cases in point are lodge properties, community hospitals, libraries, and playgrounds for both children and adults. Again, such properties as fire stations and equipment, water systems, and other municipally owned utilities such as power and light systems, transportation and communication systems, and so forth, are generally totally tax exempt. No one would deny these the full protection of the law, yet they contribute nothing directly to the support of the public treasury.

To the degree that the general levies, state and county, are replaced by income from other sources, the above problems will disappear. But with an increase in these levies for the centralized support of education, roadbuilding and other public utilities, they will take on new interest.

An outstanding difficulty in maintaining equality of assessment, and hence taxation, between rural and urban property, grows out of the fact that changes in rural real property values frequently do not synchronize with changes in values of urban property. This condition has been particularly significant in many areas during the last ten years.

Lack of uniformity in the assessment of the different farm properties themselves, constitutes the problem of major importance in farm taxation. As indicated above, variability in valuations or assessments between rural and urban properties merely affects the allocation of the general state and county levies—usually but a small part of the total tax levy—whereas variability in the ratios of assessed to actual values of the rural properties themselves, affects equally the distribution of the general levy and the distribution of the local levy.

The prevalence of such inequalities in valuations has been amply verified by extensive studies carried on in several states. These variations generally manifest themselves in two forms: first, a pronounced tendency to over-assess properties in the low value

classes or groups, with a gradual scaling down of the assessment ratios as the higher value groups are approached; second, a variability in the ratios of assessed to actual values of the individual farm properties, independent of group variations.

The former is a group phenomenon and the least serious of the two. Measures of variability would indicate that the percentage of total taxes misplaced due to variations in group assessments probably does not exceed four per cent in most states. But as this extra burden falls upon the owners of small properties, those generally least able to bear it, the ill results therefrom are unquestionably out of all proportion to the taxes so misplaced.

Inequalities in assessments among individual farm properties, next to the heavy tax burden itself, presents the most serious problem in farm taxation.

The findings of the investigations carried on in a number of states indicate that from ten to thirty percent of the farm real property taxes in the various areas surveyed have been misplaced through such inequalities in assessments. In some states, real farm property representing less than one-half of the total real farm wealth, bears two-thirds of the real property taxes, whereas the other one-half of the real farm wealth bears not to exceed the remaining one-third of the tax burden.

The ill results of such inequalities in tax burdens are difficult to over-estimate. The market values of the over-assessed properties are adversely affected through the capitalization of the unjust tax burden. It necessarily creates dissatisfaction and discontent on the part of those unfairly taxed, and the just complaint of the over-taxed property owners may give the state the unmerited reputation of being burdened with an excessive tax. Furthermore, all the evil effects of inequality and unfairness in other phases of our economic life follow. Equality of economic opportunity is destroyed, standards of living are affected, and the law is brought into disrepute.

The causes of the variations in size or value-group assessments cannot be stated with certainty. The idea that the tax is a personal tax, and that every one should contribute something to the support of his government, may consciously or unconsciously influence the assessor to evaluate the small parcels of real property the more highly. This idea is closely akin to the "benefit theory" that taxes should be paid according to benefit received at the hands

of the state, rather than in proportion to the ability of the taxpayers to meet the levy.

Recognized arbitrary over-assessment of lots and small acreage plays its part in many districts. It is also easier to examine and evaluate small properties than large ones. The intentional placing of higher assessments upon lots and lands than upon the improvements on the same, would offer an explanation for the variations in group assessments in cities where low valued transfers usually represent vacant lots. But this practice cannot be offered as a valid explanation of the variability in group assessments in rural properties where the value of improvements usually constitutes too small a percentage of the total value of the farm unit to account for any appreciable discrepancy.

A leading cause of over-assessment of small properties may be found in the less frequent complaint of the small taxpayer. Personal favoritism, and the frequently alleged influence of wealthy and politically influential taxpayers as causes of under-assessment of the more valuable properties, have no foundation in statistics.

The causes of the variability in the over-assessment of individual properties can be stated with somewhat greater definiteness.

One of the principal causes is no doubt the low ratios of assessed values to actual values generally. An analysis of assessment and sales data in one state clearly indicates that with a decrease in the general ratios of assessed values to actual values, there is a strong tendency for the variability or inequalities in the assessment of the individual properties to increase. Low assessed values necessarily imply high tax levies, with a resulting increased pressure for a still greater reduction in assessments. This condition would argue in defense of the law requiring the assessment of all property at full cash value.

Another prominent cause of the inequalities in the assessments of real properties, is a direct outgrowth of an inherent defect in the general property tax. It is found in the prevalent idea that real property is unjustly bearing the greater tax burden. Hence any escape from real property taxes through under-assessment is looked upon, not as an evasion of a just obligation, but rather the escape from an unfair burden.

An immediate cause of the lack of uniformity in assessment of farm properties, is the dearth of accurate and detailed information on the properties within the assessor's jurisdiction. This is more

particularly true in the sparsely populated areas of the country, and in those areas where there is great diversity of resources, but such dearth of information is not restricted to these states. In response to the question, "What is your most difficult problem in the assessment of rural property?", a number of assessors in Oregon have personally said to the author, "I don't know what I've got in my county." Some have volunteered the further statement, "When my taxpayers claim that they are over-assessed, I am not in a position to successfully refute them. They have more information than I have." This same condition prevails quite generally throughout the western states.

What is needed most in these areas, is a thorough-going survey or re-survey of the land and its resources. Carefully made plats minutely describing the contour, soil conditions, and tillable and non-tillable areas, are highly essential. The assessor should be in possession of accurate and detailed information on every acre of land within his jurisdiction, whether timber, brush, cleared and tillable, or grazing land. Huge grazing areas, for example, in our western states, widely differing in value, are frequently subjected to flat rate assessments of from \$2.00 to \$3.00 per acre, with the result that changes in land tenure are seriously retarded. The poorer grazing lands are frequently leased for less than the taxes.

In a few counties in the states of California and Oregon, for example, where careful surveys and descriptive plats have been made, few complaints on assessments are registered with the assessors, and practically none are carried beyond the assessors' office to the equalization board. The differences can generally be smoothed out to the complete satisfaction of both the assessor and the property owner.

Once a thorough survey has been made, constant changes in assessed values of properties coincident with changes in the shifting values of those same properties will be necessary. Adequate funds to provide a trained staff for this work is dependent upon the public's interest in, and appreciation of, the problems involved.