

# *State AG and Rural Leaders*

January 10, 2016



# *Indiana Legislative Services Lincoln Land Institute*

All states have farmland assessment practice  
that is different from that of non-farmland  
Only the District of Columbia has no program

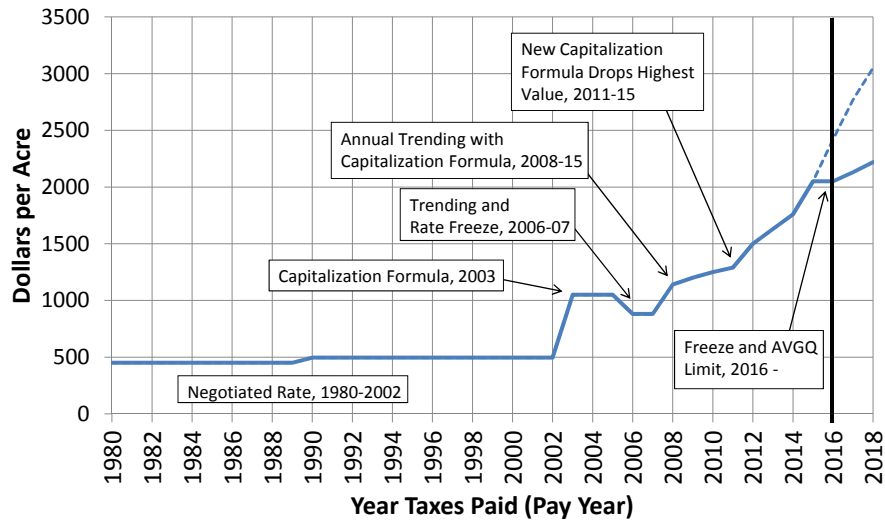


## *Indiana Legislative Services Lincoln Land Institute*

- 37 states use capitalization-of-income approach.
- 3 states – Alaska, Nebraska, and Vermont – use the market price of farmland sold for farming purposes
- South Carolina discounts farmland as compared to other property
- 4 states – Georgia, New York, Oregon, and Wisconsin – limit the annual growth in farmland assessments.



**Base Rate per Acre of Farmland for Property Taxation,  
Actual 1980-2016; and Estimated 2017-2018**



## *Use Value Assessment of Farmland*

“The constitution does not require an assessment to be based upon the highest and best use of the property. Focusing upon the taxpayer’s actual use of land and improvements, rather than the possible uses which potential purchasers may choose, is an altogether appropriate way to evaluate property wealth for the purpose of assessment and taxation under the Property Taxation Clause.”

Indiana Supreme Court, Town of St. John decision, Dec. 4, 1998, p.19



## *Indiana Farmland Valuation*

Indiana’s Farmland Base Value from  
Capitalized Net Income Approach  
A standard practice in a market value system



# *Farmland Base Value Assessed Value by Soil Detail*

**Base Value x Soil Productivity x  
Influence Factors**





## *Data Used to Calculate Base Rate*

Data Year	Net Incomes		Market Value			Annual Average
	Cash Rent	Operating	In Use			
			Cap. Rate	Cash Rent	Operating	
1999	99	36	8.77%	1,129	410	770
2000	101	60	9.56%	1,056	628	842
2001	102	61	8.00%	1,275	763	1019
2002	105	20	7.02%	1,496	285	890
2003	106	71	6.29%	1,685	1,129	1407
2004	104	135	6.35%	1,638	2,126	1882
2005	110	59	7.22%	1,524	817	1170
2006	110	74	8.18%	1,345	905	1125
2007	122	184	7.94%	1,537	2,317	1927
2008	140	189	6.56%	2,134	2,881	2508
2009	139	116	6.17%	2,253	1,880	2066
2010	141	173	5.97%	2,362	2,898	2630
2011	160	254	5.61%	2,852	4,528	3690
2012	185	116	5.05%	3,663	2,297	2980
2013	204	321	4.74%	4,304	6,772	5538
2014	207	163	4.77%	4,340	3,417	3,878

**Calculation of the Base Rate for an Acre of Farmland**

**Assessment Year 2014; Tax Year 2015**

Year	<u>NET INCOMES</u>			<u>MARKET VALUE IN USE</u>		
	Cash Rent	Operating	Cap. Rate	Cash Rent	Operating	Average
2006	110	74	8.18%	1,345	905	1,125
2007	122	184	7.94%	1,537	2,317	1,927
2008	140	189	6.56%	2,134	2,881	2,508
2009	139	116	6.17%	2,253	1,880	2,066
2010	141	172	5.97%	2,362	2,881	2,621
2011	161	254	5.61%	2,870	4,528	3,699
<b>Base Rate per Acre</b>						<b>\$2,050</b>






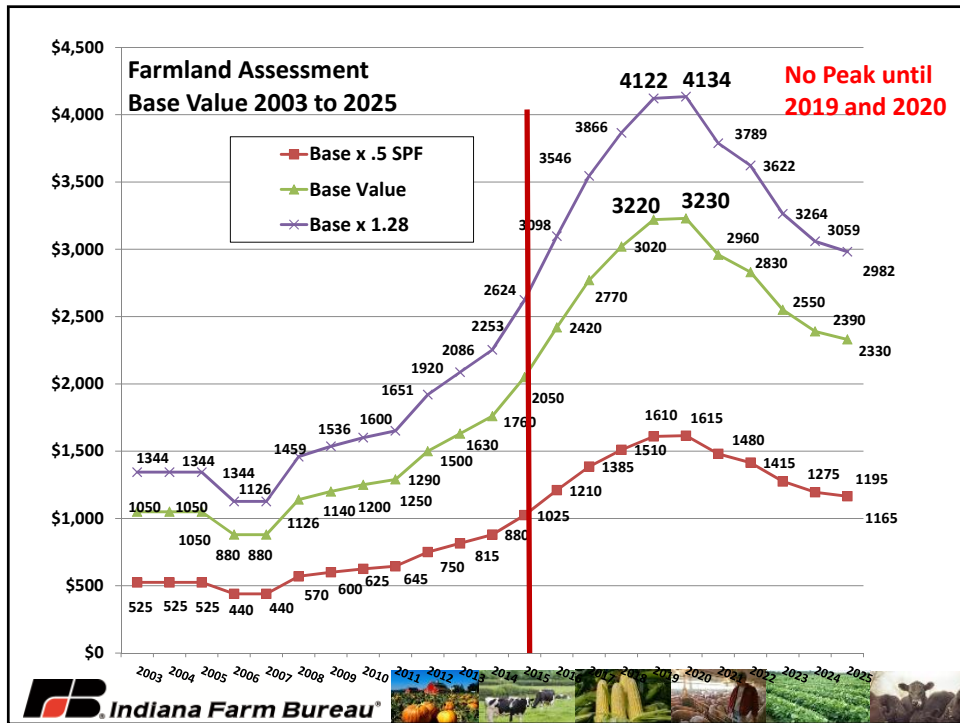
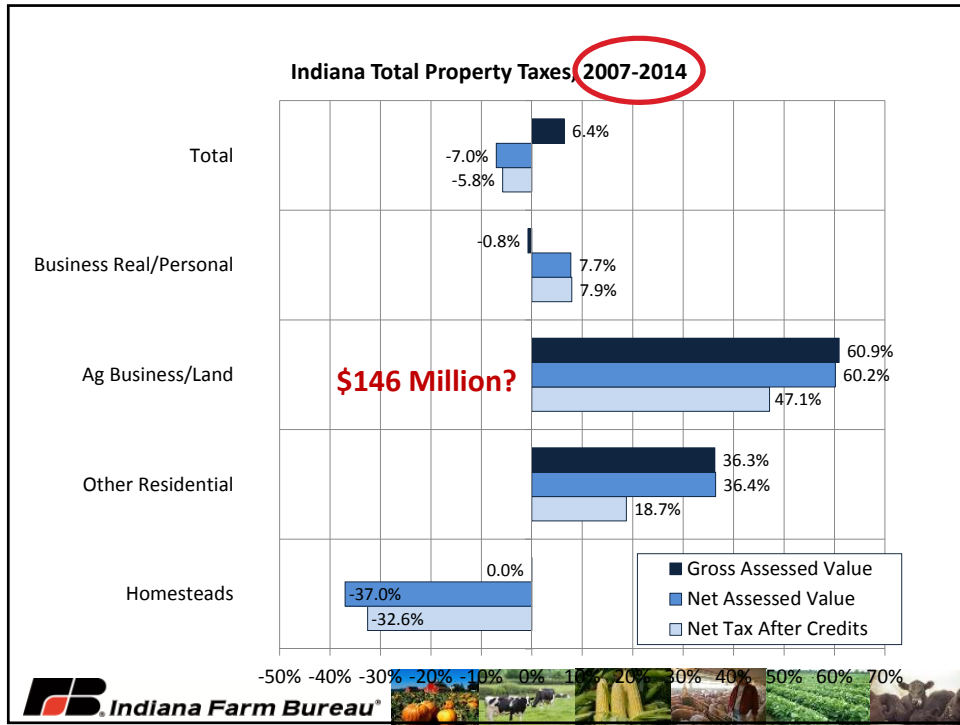
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2010	141	172	5.97%	2,362	2,881	2,621
2011	161	254	5.61%	2,870	4,528	3,699
2012	185	116	5.06%	3,656	2,292	2,974
<b>Base Rate per Acre</b>						<b>\$2,420</b>

+18.0%

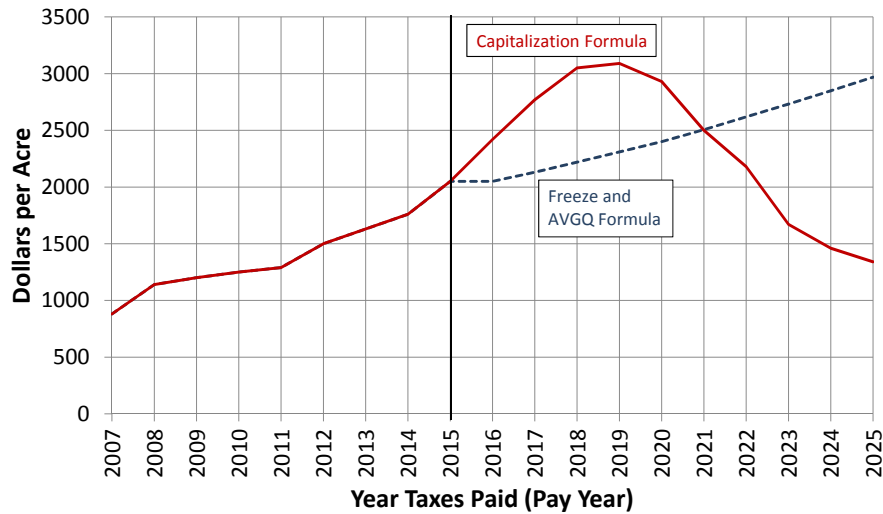


## *Farmland Tax Relief*

- SEA 205: Sen. Jean Leising
- SEA 436: Senator Hershman & Rep. T Brown
- Passes House 98-0 and Senate 49-0
- Farmland taxes \$250 million less over next 3 yrs
- Freezes Soil Productivity Factors again
- Repeats 2015 farmland base value of \$2,050 for taxes paid in 2016
- 2017 and thereafter, base value is \$2,050 x AGQ (2.7%)
- Study committee on farmland assessment



**Base Rate per Acre of Farmland for Property Taxation,  
Capitalization Formula and AVGQ Formula, Projected 2016-2025**



*Percent Change in Base = Change in Tax Bills*

Year	Base Value	% increase	SEA 436 Base		SEA 436 Base Value = less of AGQ or formula	
			x AGQ	% increase		% increase
2003	\$ 1,050		\$ 1,050			
2004	\$ 1,050	0.00%	\$ 1,050	0.00%		
2005	\$ 1,050	0.00%	\$ 1,050	0.00%		
2006	\$ 880	-16.19%	\$ 880	-16.19%		
2007	\$ 880	0.00%	\$ 880	0.00%		
2008	\$ 1,140	29.55%	\$ 1,140	29.55%		
2009	\$ 1,200	5.26%	\$ 1,200	5.26%		
2010	\$ 1,250	4.17%	\$ 1,250	4.17%		
2011	\$ 1,290	3.20%	\$ 1,290	3.20%		
2012	\$ 1,500	16.28%	\$ 1,500	16.28%		
2013	\$ 1,630	8.67%	\$ 1,630	8.67%		
2014	\$ 1,760	7.98%	\$ 1,760	7.98%		
2015	\$ 2,050	16.48%	\$ 2,050	16.48%		
2016	\$ 2,420	18.05%	\$ 2,050	0.00%	2016 Savings = \$52.4 million	
2017	\$ 2,770	14.46%	\$ 2,105	2.70%	2017 Savings = \$86.5 million	
2018	\$ 3,020	9.03%	\$ 2,162	2.70%	2018 Savings = \$111.1 million	
2019	\$ 3,220	6.62%	\$ 2,221	2.70%		
2020	\$ 3,230	0.31%	\$ 2,281	2.70%		
2021	\$ 2,960	-8.36%	\$ 2,342	2.70%		
2022	\$ 2,830	-4.39%	\$ 2,405	2.70%		
2023	\$ 2,550	-9.89%	\$ 2,470	2.70%		
2024	\$ 2,390	-6.27%	<del>\$ 2,537</del>	<del>2.70%</del>	\$ 2,390	-3.25%
2025	\$ 2,330	-2.51%	<del>\$ 2,605</del>	<del>2.70%</del>	\$ 2,330	-8.16%



*What does the future hold?*

Farm income from crops is in serious decline  
 World grain stocks higher  
 Yields higher





**Weaker world demand due to:**

- Weak developing economy income growth
- Strong U.S. dollar
- Excess supplies of oil and general commodity weakness



Exchange Rate Changes		Today vs. Year-Ago
<u>As Sellers</u>	Argentina	-10%
	Brazil	-40%
	Russia	-45%
<u>As Buyers</u>	China	-4%
	Japan	-12%
	Mexico	-21%
	Korea	-15%

PURDUE UNIVERSITY

Center for Commercial Agriculture

September 14, 2015



Corn: USDA					Purdue
9/11/15					15/16
	12/13	13/14	14/15	15/16	15/16
Carry In	989	821	1,232	1,732	1,732
Production	10,755	13,829	14,216	13,585	13,534
Total Supply	11,932	14,686	15,477	15,347	15,286
Feed	4,336	5,036	5,300	5,275	5,325
FSI Non-Fuel	1,396	1,367	1,365	1,380	1,380
Ethanol	4,648	5,134	5,205	5,250	5,250
Exports	731	1,917	1,825	1,850	1,850
Total Use	11,111	13,454	13,745	13,775	13,805
Carry over	821	1,232	1,732	1,592	1,481
U.S. Price	\$6.89	\$4.46	\$3.68	\$3.75	\$3.85

\$3.45-4.05    \$3.55-\$4.15

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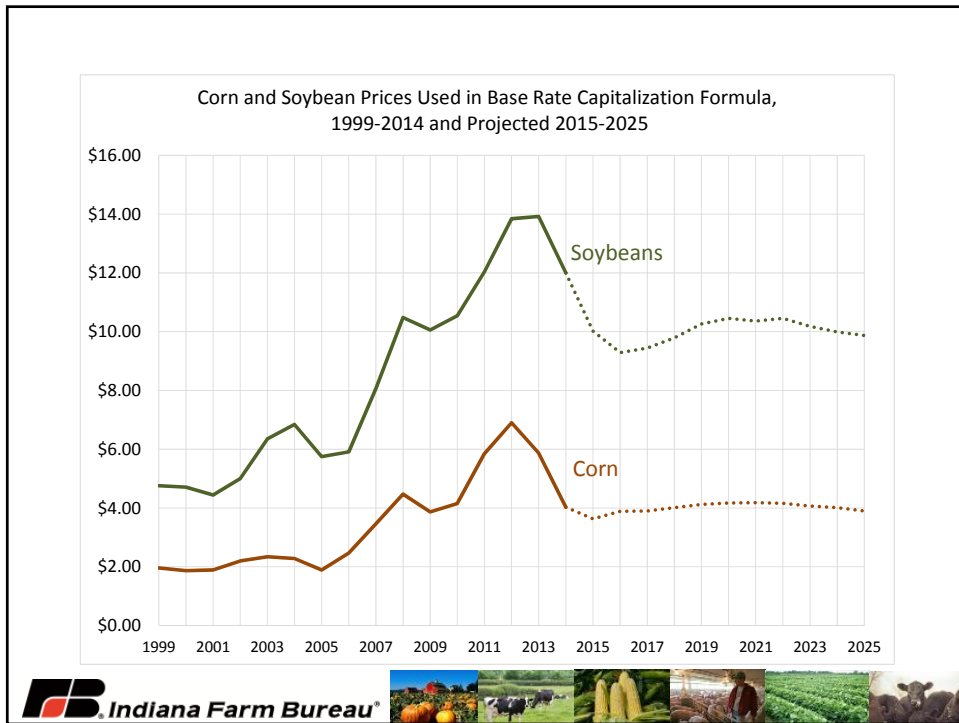


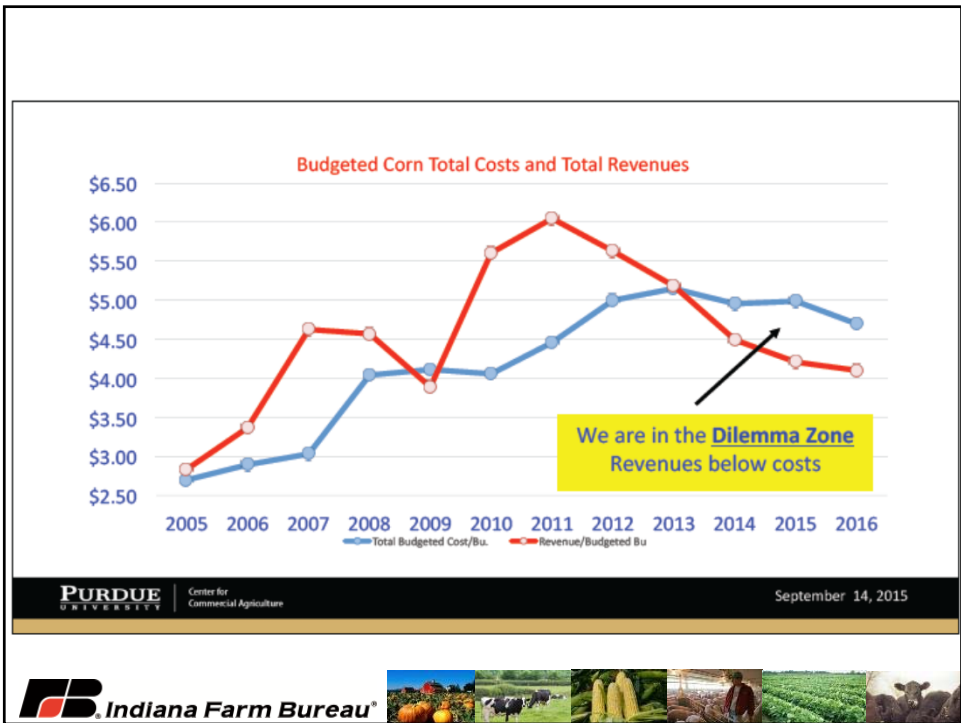
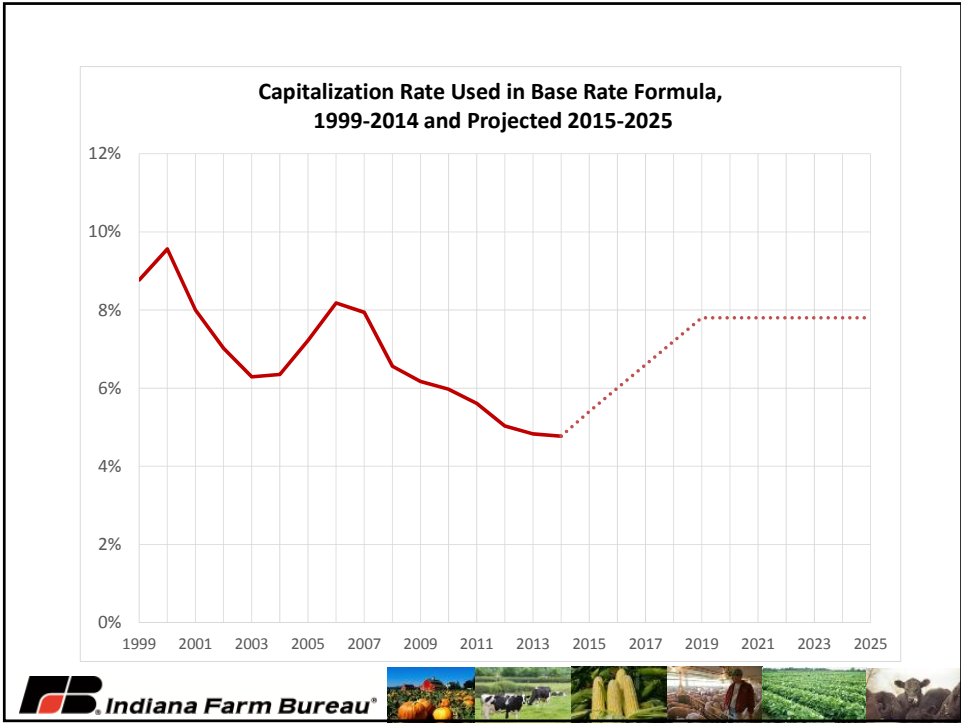
**Soybeans: USDA**

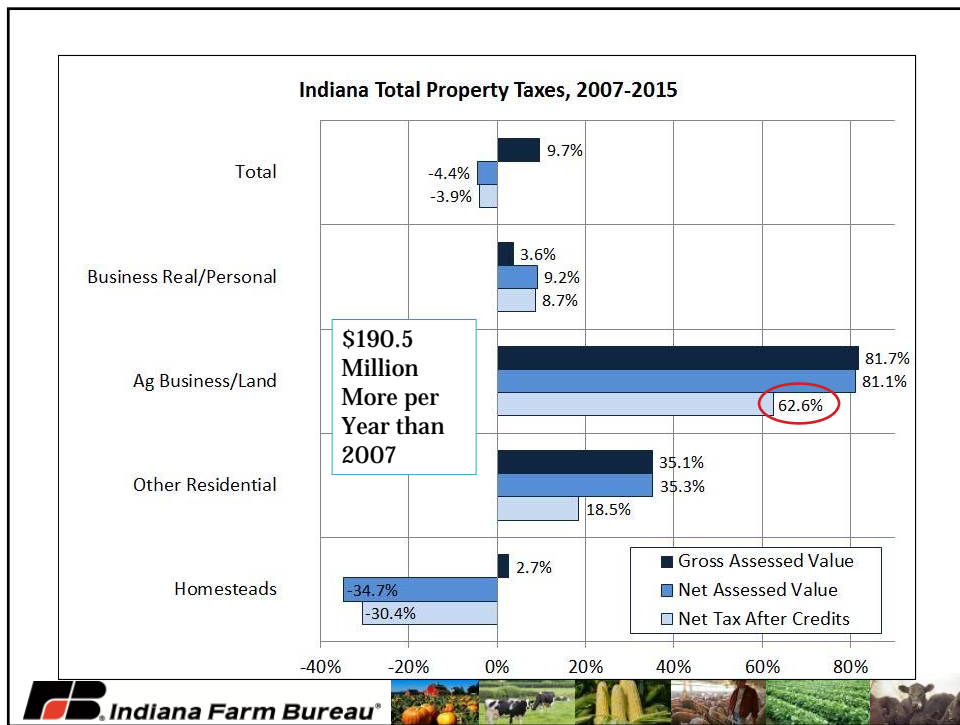
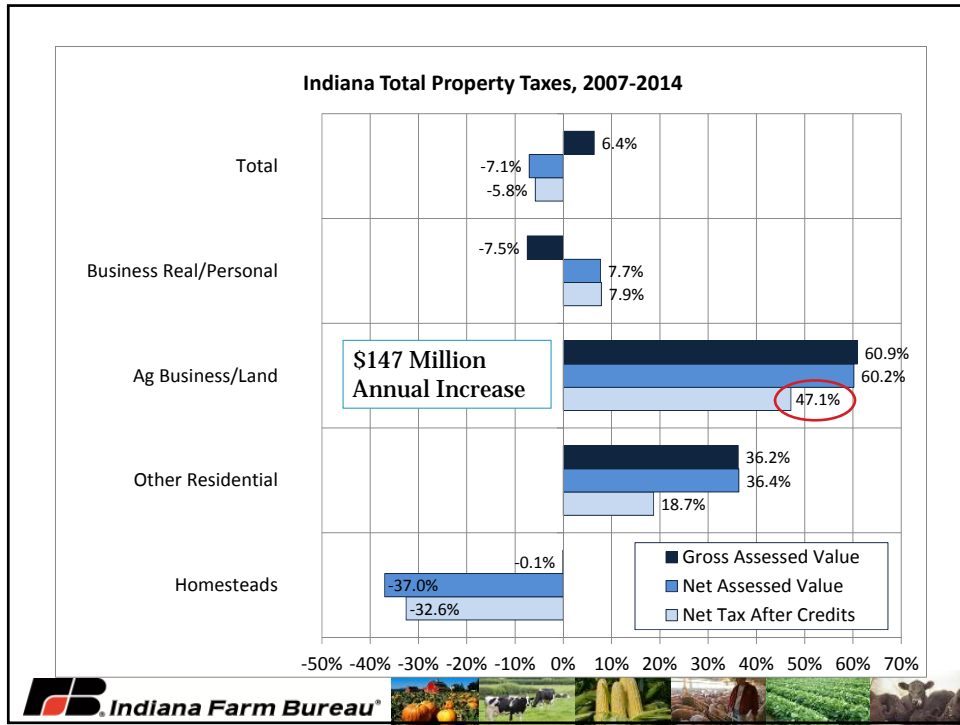
	9/11/15				Purdue
	12/13	13/14	14/15	15/16	15/16
Carry In	169	141	92	210	210
Production	3,034	3,358	3,969	3,935	3,814
<b>Total Supply</b>	<b>3,239</b>	<b>3,570</b>	<b>4,091</b>	<b>4,175</b>	<b>4,154</b>
Seed & Res.	89	97	179	130	125
Crush	1,689	1,734	1,870	1,870	1,880
Exports	1,320	1,647	1,835	1,725	1,735
<b>Total Use</b>	<b>3,098</b>	<b>3,478</b>	<b>3,884</b>	<b>3,725</b>	<b>3,740</b>
Carry Over	141	92	210	450	414
U.S. Price	\$14.40	\$13.00	\$10.06	\$9.15	\$9.40
				\$8.40-\$9.90	\$8.65-\$10.15

PURDUE UNIVERSITY Center for Commercial Agriculture September 14, 2015

**Indiana Farm Bureau**





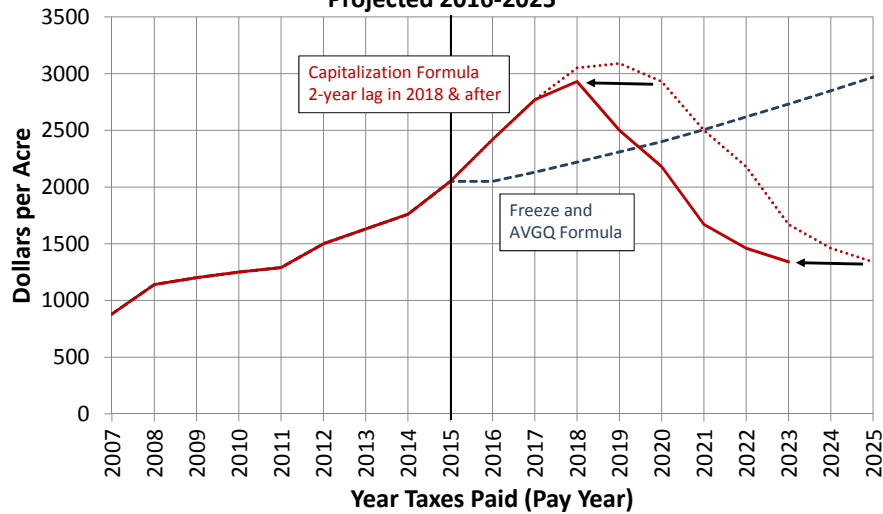


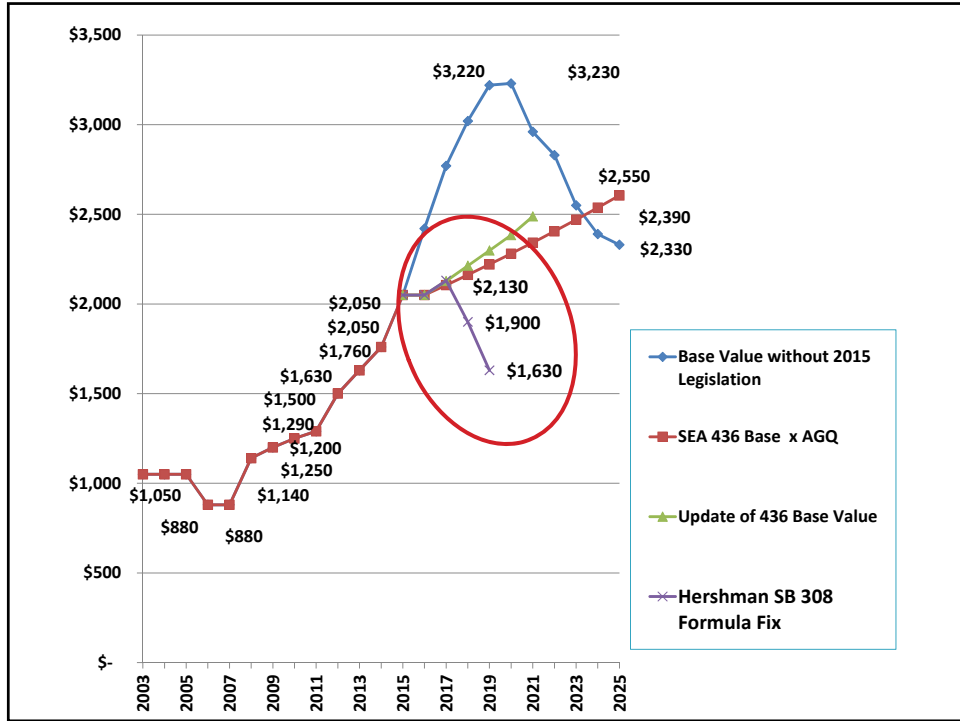
## *Farmland Tax Suggestions*

- ✓ Maintain Use-Value
- ✓ Settle Soil Productivity Factor Issue
- ✓ Shorten data delay / yrs used in base formula
- ✓ Investigate other cap rate determinations
- ✓ Consider taxes in context of services used
- Move farm property below 2% CB
- Re-establish Ag Land Advisory Group



**Base Rate per Acre of Farmland for Property Taxation,  
Capitalization Formula with 2-Year Lag and AVGQ Formula,  
Projected 2016-2025**





*Questions?*

