

Overview of formulas used in Midwestern states to assess and tax arable farmland



Under **ILLINOIS'** use-value assessment system, the income potential of each farm field is calculated using a soil productivity index, commodity prices and production costs. It is then divided by a five-year average of mortgage interest rates (based on Federal Land Bank data). This calculation determines each parcel's "agriculture economic value." In each county, a farmland assessment committee approves the "agriculture economic value." One-third of that value is then taxed.



Under **INDIANA'S** use-value assessment system, a base rate estimating net income is calculated using yield, commodity prices, government payments and production costs. This base rate is multiplied by a soil-productivity factor and then divided by the mortgage interest rate. This calculation is done annually and is based on a six-year rolling average. A constitutional amendment in the state limits property taxes on farmland to 2 percent of its assessed value.



IOWA uses five-year averages of cash rental rates in a county. The capitalization rate is set at 7 percent (rather than being based on actual mortgage interest rates). To determine the income-producing ability of each parcel of land, county-by-county averages are used rather than individual field-level calculations. A soil-rating system can also be used to adjust assessed land values within a county. The taxable value of land cannot increase annually by more than 4 percent.



Under **KANSAS'** use-value assessment system, the net income for agricultural land is based on median production levels in the county (an eight-year average is used). That net income is then divided by the capitalization rate, which, in Kansas, is based in part on the county's tax rate and the five-year average of the Federal Land Bank's mortgage interest rates. Thirty percent of that use value is then taxed.



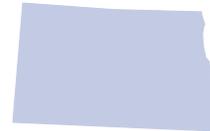
MICHIGAN does not employ a use-value assessment system. However, landowners can enroll in the Michigan Farmland and Open Space Program. They commit to keeping property in agricultural use for a certain amount of time (10 years or more); in return, they become eligible for income tax credits equal to the amount of property taxes that exceed 3.5 percent of the household income. In addition, increases in taxable values are capped at the lower of two rates: 5 percent or the rate of inflation.



In **MINNESOTA**, agricultural property taxes are handled almost exclusively by each county. Sixty percent of the counties participate in the state's Green Acres program, which allows eligible property to be taxed at its value as agricultural land — rather than at its full market value.



Under **NEBRASKA'S** classified-use system, agricultural property is taxed at 75 percent of its market value. In comparison, commercial and residential property is taxed at 100 percent of its market value.



Under **NORTH DAKOTA'S** use-value assessment system, production and input costs are divided by mortgage interest rates to determine the average agriculture value for cropland and non-cropland. A 10-year average is used to determine the mortgage interest rates.



In **OHIO**, a property's "current agriculture use value" is calculated by determining gross income, input costs and the capitalization rate. A five-year moving average is used. Agricultural land converted to other uses is subject to a penalty, which amounts to three years' worth of tax savings from being assessed on use value rather than market value.



Until 2009, agricultural land in **SOUTH DAKOTA** was taxed based on its market value. The state now employs a use-value assessment system. The capitalization rate is set in statute at 6.6 percent. Eighty-five percent of the use value is taxed. Annual changes in the assessed value of land is capped at 15 percent, 20 percent or 25 percent, depending on the county.



WISCONSIN has employed a use-value assessment system since 1997. A property's use value is determined by dividing net income by the Federal Land Bank's five-year average for mortgage interest rates. A 10-member Farmland Advisory Council oversees Wisconsin's use-value assessment system.