Agricultural Net Income Situation for Property Tax Calculations

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Introduction

- Paradox between Expected Returns to Land and Property Tax Appraisals
- Calculation of Landlord Net Income for Property Tax Considerations
- Current Situation
- How Long before Property Tax Appraisals Turn?
- Impacts of Alternative Formula Changes
Impact of Moving Forward One Year for Barton County
Property Tax Computation

- Defined as the eight year average of eight year average of return to landlord
- This eight year average is then capitalized at the statute defined capitalization rate
- Process places a weight on middle years of the process
- Designed to have a more smoothing effect on tax values
  - Goal is to remove the variability of year to year changes
- Landlord net return made up of last 15 years return to the landlord
  - The 2019 Landlord Net Income made up of individual values from 2003 - 2017

Property Tax Computation Process

Eight Year Average of an Eight Year Average
Non-irrigated Single Year Landlord Return for Barton County, 1998 - 2017 (Central Kansas)

Non-irrigated Computation Process for Barton County
Non-irrigated Computation Process for Barton County
Non-irrigated Computation Process for Barton County

One Year Percentage Change for Barton County
Impact of Moving Forward One Year for Kansas Dryland
(Tax Years 2017 to 2018 and 2018 to 2019)

Impact of Moving Forward One Year for Kansas Pasture
(Tax Years 2017 to 2018 and 2018 to 2019)
Impact of Moving Forward One Year for Kansas Irrigated (Tax Years 2017 to 2018 and 2018 to 2019)

In 2019, the Landlord Net Income Fell in Some Situations

<table>
<thead>
<tr>
<th>Non-Irrigated</th>
<th>Non-Irrigated</th>
<th>Irrigated</th>
</tr>
</thead>
<tbody>
<tr>
<td>SW – Clark</td>
<td>SC – Kiowa</td>
<td>WC – 700’ Well</td>
</tr>
<tr>
<td>SW – Grant</td>
<td>SC – Pawnee</td>
<td>SW – 500’ Well</td>
</tr>
<tr>
<td>SW – Hamilton</td>
<td>SC – Reno</td>
<td>SW – 600’ Well</td>
</tr>
<tr>
<td>SW – Morton</td>
<td>SC – Sedgwick</td>
<td>SW – 700’ Well</td>
</tr>
<tr>
<td>SW – Stevens</td>
<td>SC – Stafford</td>
<td></td>
</tr>
<tr>
<td>EC – Chase</td>
<td>SC – Barber</td>
<td></td>
</tr>
<tr>
<td>EC – Coffey</td>
<td>SC – Comanche</td>
<td></td>
</tr>
<tr>
<td>EC – Lyon</td>
<td>SC – Harper</td>
<td></td>
</tr>
<tr>
<td>EC – Morris</td>
<td>SC – Kingman</td>
<td></td>
</tr>
<tr>
<td>SE – Greenwood</td>
<td></td>
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</tr>
</tbody>
</table>
When might the Non-irrigated Returns Begin to Fall

Net Farm Income without Government Payments and Net Crop Insurance Proceeds

Kansas Farm Management Regions
- 2016
- 2017
- 2018
### Turning Point Of Landlord Returns

- 15-year Average is $38.37
- 15-year Minimum is $15.54
- Assumes equal returns in the future
- Turning point in 2020

<table>
<thead>
<tr>
<th>Turning Point</th>
<th>% Change from 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>$15.54</td>
<td>-1.1%</td>
</tr>
<tr>
<td>$20.54</td>
<td>-0.9%</td>
</tr>
<tr>
<td>$25.54</td>
<td>-0.7%</td>
</tr>
<tr>
<td>$30.54</td>
<td>-0.6%</td>
</tr>
<tr>
<td>$35.54</td>
<td>-0.4%</td>
</tr>
<tr>
<td>$40.54</td>
<td>-0.2%</td>
</tr>
</tbody>
</table>

### Landlord Returns 2024 with Various LNIs

- 15-year Average is $38.37
- 15-year Minimum is $15.54
- Assumes equal returns in the future
- Turning point in 2020
- LNIs likely to fall by more than 10% in five years

<table>
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<tr>
<th>Turning Point</th>
<th>% Change from 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>$15.54</td>
<td>-24.6%</td>
</tr>
<tr>
<td>$20.54</td>
<td>-22.0%</td>
</tr>
<tr>
<td>$25.54</td>
<td>-19.4%</td>
</tr>
<tr>
<td>$30.54</td>
<td>-16.8%</td>
</tr>
<tr>
<td>$35.54</td>
<td>-14.2%</td>
</tr>
<tr>
<td>$40.54</td>
<td>-11.6%</td>
</tr>
</tbody>
</table>
House Bill 2293 Introduced


- “Prior to July 1, 2020, commodity prices, crop yields and pasture and rangeland rental rates and expenses shall be based on an average of the eight calendar years immediately preceding the calendar year which immediately precedes the year of valuation”
- “On and after July 1, 2020, commodity prices, crop yields and pasture and rangeland rental rates and expenses shall be based on an average of the calendar year immediately preceding the calendar year that immediately precedes the year of valuation”
- The productivity index also was adjusted to eliminate the eight year average

- Using Barton, Dickinson, and Rush county as a guide several scenarios will be examined
  - (Scenario 1) Using eight year averages of single years for price, productivity, crop-mix, and yield
  - (Scenario 2) Using eight year averages of single years for price, eight year averages of yields, crop mix, and productivity
  - (Scenario 3) Using five year averages of five year averages
Summary

- Kansas real estate tax values on non-irrigated land are likely to begin to decrease in the next year
  - Percentage decreases are likely to be small unless Kansas agriculture's profitability remains at low levels
- Kansas real estate tax values on irrigated land are likely to begin to decrease in the next year
  - Percentage increase is likely to be similar to non-irrigated
- Kansas real estate tax values on pasture are likely to be fairly stable over the next few years
- The decrease over the next 5 years could be more than 10% unless landlord net incomes increase to above the 15 year average

Questions?

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