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EFFECTS OF TAX LIMITATIONS ON AGRICULTURE

The Illinois Experience

by

Harold D. Guither

June 1979

No. 79 E-86



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Presented at the symposium on Impacts of the Proposition 13 Movement,  
American Agricultural Economics Association annual meeting, Pullman,  
Washington, July 29 - August 1, 1979.

# EFFECTS OF TAX LIMITATIONS ON AGRICULTURE

## The Illinois Experience

by

Harold D. Guither<sup>1/</sup>

These brief comments regarding the effects on agriculture of tax limitation will be confined to local property taxes for farm real estate. Consequences of state and federal tax limitations are extensive enough for another symposium.

Illinois has undergone three phases of property tax limitations to agriculture during the 1970's: the use value assessment law in 1971, a farm land assessment bill in 1977, and efforts in 1979 to amend the 1977 Act to correct inequities created in that law.

### Use Value Assessment

The 1971 use value assessment act (Public Act 77-1183) went into effect in 1972. It applied to counties of 200,000 population or more so it was limited to eight counties in the Chicago, Rockford and East St. Louis metropolitan areas. A property to be eligible had to be 40 acres or larger and used currently for farming or agricultural purpose for three preceeding years. Participation was voluntary and the taxpayer had to apply annually. The application for use value assessment required that two assessments be made, one based on agricultural use value and the other at the normal level, the statutory 50 percent of fair market value at that time. This statutory assessment level was reduced to 33 1/3 percent of market value in 1975.

Taxes due were to be calculated for both assessment valuations, but current payments were to be made only on the use value basis. A change to nonagricultural use called for payment of taxes deferred in the three previous years with an interest charge of 5 percent on these amounts.

In 1973, the law was amended so that beginning in 1974 the provisions applied to all counties in the state and properties of 10 acres or larger used for agricultural purposes were eligible.

Use value assessment has had little effect on Illinois agriculture. For the first two years, only 8 counties of the 102 in the state were eligible. After other areas of the state became eligible, farmland values were rising rapidly. The concern among most landowners was not in the tax differential between land on the urban fringe but in the rising values and statutory assessment laws that would continually boost assessments and the accompanying taxes on all agricultural land.

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## A New Basis for Farmland Assessment: the 1977 Farmland Assessment Act

With the inflationary effects upon farmland values from 1972 through 1977, farm owners through the major farm organizations set out to develop a new basis for farmland assessment in 1977. The objective was not to roll back tax assessments but to reduce the rate of increase that would result if the statutory 33 1/3 percent market value were really implemented. Actually, Illinois farmland in 1977 carried an average assessment of about 23 percent of market value.

The result was a new act which provided a formula that combined two measures of productivity and market value as the basis for assessment. The formula had three elements: (1) the value per acre of agricultural products sold from the county where the land was located as shown by the Census of Agriculture, (2) the average value per acre per year of corn, soybeans, wheat, and hay for the most recent three years, and (3) 10 percent of the average sale price of land sold for agricultural purposes for the same three years.

The formula figure was to be the highest assessed value per acre at which the best farmland could be assessed in that county. In addition farm residences were to be assessed at one third their market value and farm buildings on the basis of their "current use and contribution to the productivity of the farm."

Land of lesser value was to be assessed at lower amounts based on productivity as shown by soil maps, crop uses, and other available data.

The first full year in which the 1977 Act could be implemented was in 1978. However counties did have the option of holding assessments at the same level as 1976 and 1977 if total assessments would be lower under the new act. Consequently, because of this "hold harmless" provision, as well as some other reasons, only 28 percent of the counties in the state used the new assessment procedures in 1978.

The major problems as reported by assessment officials were: (1) the lack of detailed specific aerial or soil classification maps, (2) time, personnel, and expense required, (3) identifying a farm for assessment, (4) valuing residence and buildings separately, and (5) drop in aggregate assessed valuation and gaining public understanding.

With only one year and a limited use of the new law, the full effects of the 1977 Act upon agriculture cannot be fully identified. Some of those apparent however were:

Rising tax assessments in some counties as the new formula was applied before the old assessment had reached the 33 1/3 percent of market value statutory limit. It appears that almost as many counties will experience increases in farmland assessments per acre as will experience decreases.

Loss of total assessed valuation in counties with a high proportion of real property in farmland.

The 1978 assessments based on the new formula used the 1974 Census and 1974-76 Crop Reporting Service figures for values of crops and live-stock produced. In the year the taxes are to be paid, the income available to pay may not be moving in the same direction as the change in assessment and associated taxes due.

The formula does not recognize the different relationships between gross income, rental shares and land values in different parts of the state. The usual crop share rents are one-third in southern Illinois and one-half of the crop in central and northern Illinois.

Wide differences in the top assessment values per acre occur in adjacent counties. So problems occur where a farm lies on both sides of a county line or where taxing districts such as school districts include land in the adjacent counties.

#### The 1979 Amendments to the 1977 Act

State Department of Local Government Affairs officials soon realized that the 1977 Act could not be implemented equitably across 102 counties as it was passed. So efforts began in 1978 to develop amendments that would correct some of these problems. The result is a bill before the 1979 legislature that would set up 10 representative counties in the northern two thirds of the state and 10 representative counties in the southern one third of the state. The State Department of Local Government Affairs would provide the top value of assessment per acre for each county using the representative counties base. This procedure would attempt to avoid county line inequities.

The state will also provide an average value assessment for farm land in each county based upon productivity indices. Assessments for low value land will be determined by local assessing officials based upon productivity indices.

The new amendments have passed the House and Senate and it appears that they are likely to become law. Their effects are yet to be determined.

#### Conclusion

The Illinois experiences of the 1970's suggests that inflation, rising costs other than taxes, political effectiveness of a large farm organization such as Illinois Farm Bureau, and a cooperative governor and state legislature all contribute to achieving changes in laws affecting farm real estate taxes.

What seems most needed is more thorough research that would anticipate consequences upon farmers and the officials who must implement such laws.

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