
STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE



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Frequently Asked Questions: Agricultural Land Base Rate for 3/1/2015

For what purpose is the agricultural land base rate used?

The base rate, which can be adjusted for productivity, land use type, and other factors, is the foundation for determining the true tax value of property classified by local assessing officials as agricultural land. To ensure uniformity in the assessment of agricultural land, state law requires the Department of Local Government Finance (“Department”) to determine a base rate for local assessing officials to use in determining the true tax value.

What is the new agricultural land base rate?

The agricultural land base rate for the March 1, 2015 assessment date for taxes payable in 2016 is \$2,420 per acre. This annual calculation is based on a rolling six-year average with the highest year of the six-year average being eliminated per Indiana statute.

What caused the increase from last year’s rate of \$2,050 to \$2,420?

The change in the base rate is based on changes in cash rent, yields, production costs, market prices and interest rates. In this case, the change was the result of the removal of the 2006 data and the addition of the 2012 data. [Link to 2015-pay-2016 Agriculture Land Example Calculation](#)

Why has the rate increased since 2005?

The base rate for agricultural land for March 1, 2005 was \$880 and the base rate for March 1, 2015 is \$2,420. During this time period, the law was changed from using a four-year rolling average of income and expense data to a six-year average of the same data with the highest year being removed from the calculation. While the formulas in the calculation have not changed during this time period, the changes to the income stream have. The increase in the base rate is based on changes in cash rent, yields, production costs, market prices and interest rates.

Which years were used to calculate the rate?

The Department used a rolling six-year average to calculate the rate, pursuant to IC 6-1.1-4-4.5. The years used were: 2007, 2008, 2009, 2010, 2011 and 2012 with the 2011 data eliminated from the calculation since it was the highest year.

Why isn’t the data for the year of 2013 used in the calculation?

The published sales information is not available to the Department at the time that the base rate calculation is made. Crops, which are planted in the spring of 2013, are harvested in the fall of 2013. The farmer would then have until August of 2014 to sell that crop. The published data for 2013 was released in December of 2014. It should also be noted that the base rate was calculated for the assessment year of March 1, 2015 for taxes payable in 2016. Since there is a one-year period between the assessment and the payment of taxes, this adds another year of “lag time”.

Speaking of “lag time”, could you explain the four-year delay between the years of data used and the year the taxes are paid?

For the assessment date of March 1, 2015, the taxes are paid in 2016; however the crops have not even been planted for those two years so no data is available at the time this calculation is made. For 2014, the crops were recently harvested and some of the grain has not been sold so that data is not available. The fourth year (2013) of this period is explained in the question above and basically says that the 2013 harvest was sold by August of 2014 and the data was published a few months later. The Department is required to use published data in its calculations so forecasts and estimates could be questioned under the findings of the St. John’s case.

When the assessment date changes from March 1 to January 1 next year, will that have an impact on the calculations for agricultural land base rate?

The calculations will have to be made earlier in the year so the availability of data would be the only concern. Under the current methodology, even the fourth year of the four-year delay would be available so no problems are expected with the calculation of next year’s base rate even with the new assessment date.

What is a history of the previous rates?

For the assessment dates of March 1, 2002; 2003; and 2004, the rate was \$1,050. For March 1, 2005, the rate was \$880. For March 1, 2006, the rate would have increased; however legislature passed SEA 327-2005 which set the rate at \$880. For the March 1, 2007, the rate was \$1,140 per acre. For March 1, 2008’s rate, statute required the Department to remove the 1999 data, replacing it the 2005 data for the calculation, bringing the rate to \$1200. For March 1, 2009’s rate, statute required the Department to remove the 2000 data and replace it with the 2006 data to arrive at the base rate of \$1,250. For March 1, 2010’s rate, statute required the Department to remove the 2001 data and replace it with the 2007 data to arrive at the base rate of \$1,400. This rate was later recalculated to be \$1,290 after Senate Enrolled Act (SEA) 396-2010 became law and required the elimination of the highest year from the calculation. For March 1, 2011’s rate, statute required the Department to remove the 2002 data and replace it with the 2008 data to arrive at the base rate of \$1,500. For March 1, 2012’s rate, statute required the Department to remove the 2003 data and replace it with the 2009 data to arrive at the base rate of \$1,630. For March 1, 2013’s rate, statute required the Department to remove the 2004 data and replace it with the 2010 data to arrive at the base rate of \$1,760. For March 1, 2014’s rate, statute required the Department to remove the 2005 data and replace it with the 2011 data to arrive at the base rate of \$2,050. For March 1, 2015’s rate, statute required the Department to remove the 2006 data and replace it with the 2012 data to arrive at the base rate of \$2,420.

It is important to remember that the change in rate is based on changes in cash rent, yields, production costs, market prices and interest rates as the Department removes one year’s data and replaces it with the current data when updating this annual calculation. [New Rate Table](#)

[Explanation](#)

Will an increase in the agricultural land base rate from year to year mean that property taxes for farmers will go up?

Increases and decreases in property taxes are a result of total local spending. An increase in the assessed value of any property type does not necessarily result in an increase in property taxes. For more information on the relationship between the assessed value and the tax rate of a property, please see the Citizens Guide to Property Tax available at

<http://www.in.gov/dlgr/2516.htm>.

What does the change in rate mean for farmers?

The rate change means that the value for agricultural land has been recalculated in compliance with the state laws and the administrative rules that pertain to annual adjustments. It is important to note that an increase in the assessed value of any property type does not necessarily result in an increase in property taxes.

Is the base rate the only factor on which farm assessed values are based?

In addition to being adjusted for productivity, the base rate can also receive influence factors for non-tillable land, woodlands, wetlands, land that is occasionally flooded, land used for farm buildings and barn lots, and other types of land that supports the farming operation. Remember, the base rate is the foundation for determining the true tax value, which is required by law.

How are farms assessed?

The agricultural land assessment formula involves the identification of agricultural tracts using detailed soil maps, aerial photography, and local plat maps. A parcel is segmented into the various soil types that it could contain and then each soil type is measured in order to determine the acreage for it. The formula is based on the productivity of each parcel's soil resources; therefore more productive land has a higher value. A soil productivity factor is used to adjust soil types up or down. The range for productivity factors begins at .5 for the poorest soils in the state to 1.66 for the best soils. These factors are based on corn yield estimates.

Once the soil types are identified and measured on a parcel, the true tax value for each soil type would be calculated by taking the acreage for that particular soil type multiplied by the base rate multiplied by the productivity factor multiplied by any applicable influence factors to arrive at the true tax value. This step would be repeated until all soil types for the parcel have been assessed. The soil type information is on the property record card for each farm and also available for the whole county at the Soil and Water Conservation office. For further reference please review the "[Classification and Valuation of Agricultural Land](#)" memo.

Why do assessors not use the income approach to value residential property?

Assessors can use the income approach for income-producing properties. For instance, an apartment building or other rental units could be assessed using the income approach. However, for a family's primary residence, a different approach is used because the homeowner uses the home as his residence and makes his income outside of the home. The factory worker, the sales clerk or the schoolteacher will all earn the same amount of income regardless of the market value of their home, so the income approach would not apply in these situations. Homeowners typically consider the cost approach or the sales comparison approach when comparing the assessed value of their home to their market value.

Is farmland the only property valued by the income approach?

No. Many properties throughout the state are valued by the income approach. IC 6-1.1-4-39 requires that all rental properties be valued by all three approaches and the lowest value derived from the three approaches is their assessed value. Other taxpayers challenge their assessment that is based on the cost approach with an appraisal using the income approach so use of the income approach is fairly common throughout the State of Indiana.

The income approach restates market value by converting the future benefits of property ownership into an expression of present worth so basically the more money a property can

generate, the more money it is worth. Higher cash rent and higher crop prices were all factors in determining the new rate of \$2,420 per acre. [Link to 2015-pay-2016 Agriculture Land Example Calculation](#)

Does all of the land owned by a farmer get valued with the base rate?

No, the residence portion of agricultural properties will be adjusted by the calculations applied to similar residential properties. Those portions of agricultural parcels that include land and buildings not used agriculturally, such as homes, home sites, and excess land and commercial or industrial land and buildings, shall be adjusted by the factor or factors developed for other similar property within the geographic stratification. 50 IAC 27-6-1

How is the agricultural land base rate calculated?

Agricultural land value utilizes the land’s current market value in use, which is based on the productive capacity of the land, regardless of the land’s potential or highest and best use. In other words, the more money that a property can generate, the more money it is worth.

The calculation covers a six-year period, with the highest year of the six-year average being eliminated from the calculation, per statute. [Link to 2015-pay-2016 Agriculture Land Example Calculation](#)

The Income Approach is one of the three recognized approaches to valuation (the others are the Cost Approach and the Sales Comparison Approach), and is used primarily for income producing properties like apartments, office buildings, and shopping centers. Under the income approach, use-value is based on the net income that will accrue to the land from agricultural production.

An average of the two income streams-cash rent and owner operated-is utilized. Cash rent information comes from Purdue Agricultural Economic Reports and is fairly simple to calculate, while owner-operated income requires a more complex calculation. Information sources for calculating the operating income include the Purdue Crop Guide and the annual publication from the Indiana Agricultural Statistics Service. The basic formula for calculating the operating income per acre is as follows:

1. Take the yields for corn and soybeans
2. Times the price per bushel for corn and soybeans to arrive at gross income
3. Deduct direct expenses such as seed, fertilizer, chemicals, etc
4. Deduct indirect expenses such as depreciation on equipment, labor, etc.
5. Add back government payments
6. To arrive at Net Income

Divide the net incomes from cash rent and operating by the capitalization rate to arrive at market value-in-use. The capitalization rate is calculated from information published by the Federal Reserve Bank of Chicago. Again, the Department calculation covers a six-year period per statute.

How is the base rate adjusted for high- and low-quality soils?

Assessors adjust the base rate using soil productivity factors developed from soil maps published by the United State Department of Agriculture (USDA). These factors are used by local assessing officials to adjust the base rate to account for the soil’s ability to produce a crop.

Note: A parcel could have multiple soil types and multiple productivity factors. Click on the

following hyperlink for further information on [USDA/Natural Resources Conservation Service](#) for soil survey.

Why does the Department use six year’s worth of data to calculate the base rate?

To determine the base rate, Indiana Code 6-1.1-4-4.5(e) requires the Department to use a six-year rolling average. This statute also requires the highest of the six years to be excluded from the calculation.

Isn’t farm land worth more than the state’s prescribed value? If it is, why isn’t the State of Indiana taxing it at its fair market value?

Real property is assessed on the basis of its “true tax value,” which means the market value-in-use of a property for its current use, as reflected by the utility received by the owner from the property. True tax value does not mean fair market value (IC 6-1.1-31-6).

The Internal Revenue Service codes similarly provide that the value of real property that is devoted to farming shall be valued on the basis of its use as a farm, rather than its highest and best use (i.e. fair market value) for estate tax purposes as well.

The Indiana Tax Court has also acknowledged that agricultural land values are assessed at less than actual market value. In the case of *Bank of Highland v. DLGF*, the ruling includes the following text: “...or in markets where owners are motivated by non-market factors such as maintenance of a farming lifestyle even in the face of a higher use value for some other purpose, true tax value will not equal value in exchange.”

My land was previously assessed as agricultural land at the base rate before I purchased it. How can I get it reassessed at that rate?

Indiana Code 6-1.1-4-13(a) states that land shall be assessed as agricultural land only when it is devoted to agricultural use. If the use of the land changed after being sold, different rules would apply to assessing it. If you believe the assessor’s determination concerning the change in use should not have occurred, you can appeal your assessment; however you must demonstrate that you devoted your property to agricultural purposes as of the assessment date.