

STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE



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Certification of Agricultural Land Base Rate Value for Assessment Year 2026

This memorandum hereby serves to notify assessing officials of the agricultural base rate to be used for the January 1, 2026, assessment date: **\$2,120 per acre.**

Land used for agricultural purposes shall be adjusted consistent with the guideline methodology that was in effect on January 1, 2005, except, in determining the annual base rate, the Department of Local Government Finance (“Department”) shall adjust the methodology to use the lowest five years of a six (6) year rolling average. Senate Enrolled Act 1 (2025) and Senate Enrolled Act 308 (2016) then requires a comparison of the preliminary Table 2-18 base rate to the prior year’s Table 2-18 base rate in order to determine the statutory capitalization rate to be used to calculate the final base rate for this assessment date.

Those portions of agricultural parcels that include land and buildings not used agriculturally, such as homes, homesites, and excess land and commercial or industrial land and buildings, shall be adjusted by the factor or factors developed for other similar properties within the geographic stratification. The residence portion of agricultural properties will be adjusted by the factors applied to similar residential properties. 50 IAC 27-6-1 (b)

The 2026 assessment year 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. The most frequently used valuation method for use-value assessment is the income capitalization approach. In this approach, use-value is based on the residual or net income that will accrue to the land from agricultural production.

As illustrated in the following equation, the market value in use of agricultural land is calculated by dividing the net income of each acre by the appropriate capitalization rate.

$$\text{Market value in use} = \text{Net Income} \div \text{Capitalization Rate}$$

The net income of agricultural land can be based on either the net operating income or the net cash rent. Net operating income is the gross income received from the sale of crops less the variable costs (i.e. seed and fertilizer) and fixed costs (i.e. machinery, labor, property taxes) of producing crops. The net cash rent income is the gross cash rent of an acre of farmland less the property taxes on the acre. Both methods assume the net income will continue to be earned into perpetuity.

The capitalization rate converts the net income into an estimate of value. The capitalization rate reflects, in percentage terms, the annual income relative to the value of an asset; in this case agricultural land. Conceptually, this capitalization rate incorporates the required returns to various forms of capital, associated risks, and the anticipated changes over time.

Since agricultural land in Indiana is nearly evenly divided between cash rent and owner-occupied production, the Department utilized a six-year rolling average (2020 to 2025) of both methods in determining the market value in use of agricultural land. The capitalization rate applied to both types of net income was based on the language contained in SEA 1 (2025) and SEA 308 (2016). The table below summarizes the data used in developing the average market value in use.

SEA 1 (2025) & SEA 308 (2016) – Final Agricultural Land Base Rate

| Year | <u>NET INCOMES</u> | | | <u>MARKET VALUE IN USE</u> | | |
|------|--------------------|-----------|-----------|------------------------------------|-----------|----------------|
| | Cash Rent | Operating | Cap. Rate | Cash Rent | Operating | Average |
| 2020 | 192 | 141 | 9.00% | 2,133 | 1,567 | 1,850 |
| 2021 | 206 | 343 | 9.00% | 2,289 | 3,811 | 3,050 |
| 2022 | 230 | 319 | 9.00% | 2,556 | 3,544 | 3,050 |
| 2023 | 233 | 260 | 9.00% | 2,589 | 2,889 | 2,739 |
| 2024 | 230 | 48 | 9.00% | 2,556 | 533 | 1,544 |
| 2025 | 229 | 29 | 9.00% | 2,544 | 322 | 1,433 |
| | | | | Average Market Value in Use | | \$2,120 |

The statewide agricultural land base rate value for the 2026 assessment year will be \$2,120 per acre.

Dated this 31st day of December 2025.

Jason Cockerill, Commissioner
 Department of Local Government Finance