Frequently Asked Questions: Agricultural Land Base Rate

What is the agricultural land base rate used for?
To ensure uniformity in the assessment of agricultural land, state law requires the DLGF to determine the true tax value of each parcel of this class of real property. The base rate, which can be adjusted for productivity, land use type, and other factors, is the foundation for determining the true tax value.

What is the new agricultural land base rate?
The agricultural land base rate for the March 1, 2009 assessment date for taxes payable in 2010 is $1,250 per acre. The calculation made each year is based on a rolling six-year average per Indiana statute.

What caused the increase from last year’s rate of $1,200 to $1,250?
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 2000 data and the addition of the 2006 data. Link to 2009-pay-2010 Agriculture Land Example Calculation

Why has the rate increased by so much over the past five years?
The change in the base rate is based on changes in cash rent, yields, production costs, market prices and interest rates. The increase covers a five-year period since Senate Enrolled Act 327 set the March 1, 2006 rate to be the same as it was for March 1, 2005. The difference covers the assessment date of March 1, 2005 ($880) through March 1, 2009 ($1,250). Link to 2009-pay-2010 Agriculture Land Example Calculation

Which years were used to calculate the rate?
The Department of Local Government Finance used a rolling six-year average to calculate the rate, pursuant to Indiana law. The years used were: 2001, 2002, 2003, 2004, 2005, and 2006. A multi-year average maintains a more stable value and is necessary due to the volatility in yields, weather conditions, production costs, market prices and other economic trends.

Why isn’t the year of 2007 used in the calculation?
The published sales information is not available to DLGF at the time that the base rate calculation is made. Crops, which are planted in the spring of 2007, are harvested in the fall of 2007. Typically, the farmer would then have until August of 2008 to sell that crop.

What is a history of the previous rates?
For March 1, 2002, 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 which set the rate at $880. For the March 1, 2007, the rate was $1,140 per acre. For March 1, 2008’s rate, DLGF removed the 1999 data from the calculation and added the 2005 data, bringing the rate to $1200. For March 1, 2009’s rate, we removed the 2000 data and replaced it with the 2006 data to arrive at the base rate of $1,250. 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 we removed one year’s data and replaced it with the current data. **New Rate Table Explanation**

**Does this 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 equate to an increase in property taxes.

**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 equate to 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 1.28 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.

**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, higher yields, and higher crop prices were all factors in determining the new rate of $1,250 per acre. Link to 2009-pay-2010 Agriculture Land Example Calculation

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 make the same amount of money 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.

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 21-6-1(b)

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.

Our calculation covers a six-year period per statute. Link to 2009-pay-2010 Agriculture Land Example Calculation

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

Since one-half of the agricultural land is cash rented while the other half is owner operated, an average of the two income streams 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 DLGF 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 DLGF use six year’s worth of data to calculate the base rate?**
To determine the best rate, Indiana Code 6-1.1-4-4.5(e) requires DLGF to use six-year rolling average because a multi-year average maintains a more stable value and is necessary due to the volatility in yields, weather conditions, production costs, market prices, interest rates, and other economic trends.

**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 referred 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 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.