Property Tax Assessment Trends and Tax Implications

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**Sticker Shock** probably could best describe Nebraska agricultural property owners’ reaction when they opened the county assessor’s letter and read the new 2013 valuation. With few exceptions, the assessed valuations on agricultural land have climbed rapidly for several years – a clear reflection of the fact that in Nebraska, agricultural land is assessed according to a set percentage of market value. With Nebraska being at the epicenter of a bullish United States agricultural land market in recent years, it is inevitable that those increases have come to bear on assessed values for property tax purposes.

But sticker shock may also be one’s reaction to how the agricultural land assessment trends compare with valuation of other real estate classes that constitute the basis of our property tax system. Going back over ten years of data maintained by the Nebraska Department of Revenue, Property Assessment Division, we have tracked the agricultural land class share of total annual increase in assessed valuation for the entire state (Figure 1 on next page). A decade ago, the agricultural land share of annual increase in valuation was less than 25 percent. But starting in 2008, with the onset of a serious national recession, a dramatic shift occurred. Even though Nebraska was spared the full brunt of the recession, the state’s residential and commercial/industrial real estate values were no longer rising and frequently were even declining in the market place. Moreover, new home construction and commercial property development slowed dramatically, meaning property improvements were not being added to the assessment roles at previous rates. Meanwhile, the agricultural industry and its associated real estate markets experienced a steady upward climb. By 2009, the agricultural land class accounted for 50 percent of the increase in total assessed valuation for the state, and that percentage has continued to rise ever since. Despite recent economic recovery and a returned growth of building in the residential and commercial real estate sectors, the
agricultural land portion of the increase in total valuation from 2012 to 2013 was \textbf{87 percent} (this reflects the fact that while residential and recreational values climbed 1.6 percent and commercial and industrial valuation rose 3.5 percent, the statewide increase in agricultural land was 22.8 percent).

Of course, those annual trends working through the county-by-county property assessment roles across the state have meant a significant shift in the agricultural land \textit{share of the property tax assessment pie} (Figure 2). For the state as a whole, in 2008 the agricultural land slice of the total assessment pie was 22 percent. As of today, that slice has grown to be \textbf{33 percent} of total state property value, to which property taxes are levied.

With property taxes being levied for local government purposes, the ultimate tax implications occur at the local level. So the agricultural land share of county property value assessment is the critical point. Figure 3 (on next page) indicates the agricultural land percentage share of 2013 real property assessments. In 66 of the state’s 93 counties, the agricultural land base represents at least 50 percent of the assessed value; and in many counties, that share is far greater.

As the Nebraska Legislature’s Tax Modernization Committee proceeds through its review process this fall, it will be well for all involved to thoughtfully consider the following:

- The agricultural sector is not only the engine of our rural economies, but it is also the \textit{heavy lifter} of local government services.
- Agriculture’s share of the property tax load has significantly increased in recent years.
- Any tax reform measures to rebalance Nebraska’s tax system \textbf{must} pay critical attention to property taxation at the local levels of government, and particularly to the tax burden carried by the agricultural community.

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FIGURE 3: AG LAND AS A PERCENT OF TOTAL PROPERTY ASSESSED VALUE, 2013

Shaded Counties Ag Land Portion ≥ 50% Total Assessed Value

Source: Nebraska Department of Revenue, Property Assessment Division: 2013 Annual Report and Updated Releases