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Real Estate Assessment and Tax Breaks: Reality or Myth?

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CORNHUSKER ECONOMICS

Real Estate Assessment and Tax Breaks: Reality or Myth?

Market Report	Yr Ago	4 Wks Ago	6/9/06
<u>Livestock and Products,</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	\$84.92	\$78.43	\$80.60
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb	141.16	126.85	130.48
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb	115.72	101.97	113.13
Choice Boxed Beef, 600-750 lb. Carcass	144.00	146.29	154.27
Western Corn Belt Base Hog Price Carcass, Negotiated	67.23	66.13	73.14
Feeder Pigs, National Direct 45 lbs, FOB	51.88	52.10	49.16
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	67.25	68.90	72.23
Slaughter Lambs, Ch. & Pr., 90-160 lbs., Shorn, Midwest	114.62	72.00	80.00
National Carcass Lamb Cutout, FOB	257.68	210.25	212.17
<u>Crops,</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Imperial, bu	2.87	4.36	4.34
Corn, No. 2, Yellow Omaha, bu	1.81	2.19	2.05
Soybeans, No. 1, Yellow Omaha, bu	6.52	5.66	5.56
Grain Sorghum, No. 2, Yellow Columbus, cwt	2.77	3.27	2.98
Oats, No. 2, Heavy Minneapolis, MN, bu	1.65	2.21	2.15
<u>Hay</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton	115.00	130.00	130.00
Alfalfa, Large Rounds, Good Platte Valley, ton	62.50	65.00	65.00
Grass Hay, Large Rounds, Good Northeast Nebraska, ton	57.50	55.00	55.00
* No market.			

Nebraska continues to be one of the highest states in terms of its dependency on property taxation for funding governmental functions. For agricultural real estate property owners, this tax can, and often does, become quite burdensome since it does not relate directly to the level of income earnings (off the land) or the benefits received (the majority of property tax obligations are for public schools and not property-enhancing services like police and fire protection, roads/bridges, etc.). It is little wonder that rural citizens are particularly concerned about it.

So it came as no big surprise that the 2006 Nebraska Legislature passed (and the Governor signed) a rather comprehensive tax reform package that included a component designed to reduce the tax burden of agricultural land owners. Under the previous system, which has been in place since the early 1990s, agricultural land in Nebraska was to be assessed for tax purposes at 80 percent of its market value. For example, an agricultural land parcel with a value of \$2,000 per acre in today's market would be assessed for tax purposes at \$1,600 per acre ($\$2,000 \times .8 = \$1,600$). The 2006 legislation changed the assessed proportion from 80 percent to 75 percent. So the same land parcel in the example above will now be assessed at \$1,500 per acre ($\$2,000 \times .75 = \$1,500$). This represents a 6.25 percent reduction in assessed value.

Now, just how much of an economic impact this change has on the level and distribution of property tax collections is much more uncertain than this tax policy shift infers. In fact, at this point we need to point out two myths of conventional wisdom.

Myth #1. Lower assessed valuation of property leads to a proportionally lower property tax obligation.

If I, as a rural property owner, can make a convincing case to my county assessor that 10 of my 100 acres of a Class 1D cropland parcel are totally nonproductive year after year due to a drainage problem, I might be able to get those acres designated as waste ground of little or no value. In turn I could

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