

FARMLAND ASSESSMENT 101 & WHAT'S TO COME

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Overview

- History of Property Tax in Illinois
- History Farmland Assessment Law
- Farmland Valuation
- Legislative Change:
 - *and what's to come*

Property Assessment

The History

History of Property Tax in Illinois

- 1818-1932 State-levied property tax
 - ▣ All property, personal and real taxed.

Originally property taxes were collected/used only by State government.

- 1932 Local property taxes
 - ▣ ***State last levied a property tax in 1932*** and replaced lost revenue with a state sales tax.
 - ▣ Local governments continued to levy and collect tax on property as their main source of revenue.

History of Property Tax in Illinois

Real Property = land/permanent attachments

Personal Property = all non-real property

- Eliminated for individuals in 1969
- Eliminated in 1979 for business entities, but now pay a replacement tax on income or invested capital.

Property Tax Basis

Based on the Value of Property Owned

First constitution in 1818 – levy taxes based on valuation - every person shall pay property tax in proportion to the value of property owned

Historical Level of Assessment

Statutory ratio of equalized assessed value to sale price:

- 1818-1930 direct proportion to value
- 1930s changed to 55%
- 1970 changed to 50%
- 1975 changed to 33.33%

Valuation

- Three Basic Approaches
 - ▣ Cost Approach
 - ▣ Sales Comparison Approach
 - ▣ Income Capitalization Approach

Farmland Assessment Act

- Original enactment in 1977
 - Began to move away from fair cash market valuation to agricultural use valuation in assessing farmland for property tax purposes.
 - Moved towards identifying land use to determine value.
 - Established a formula to determine productivity and assessed value.

Other States Get Involved

- Almost all states use a farmland assessment programs
- Majority of those use Illinois' farmland assessment model

Farmland Assessment

Administration

Administrative Responsibilities

- Illinois Department of Revenue
 - ▣ Calculates/certifies use-value assessment
 - ▣ Guidelines for compliance

- County Farmland Assessment Review Committee
 - ▣ Review use-value data
 - ▣ Review county assessment practices
 - ▣ Hold a public hearing (on use value data and assess plan)

- Local Assessing Officials
 - ▣ Township/multi-township assessor
 - ▣ Chief County Assessment Officer (CCAO)

Administrative Responsibilities

□ County Boards of Review

- ▣ Evaluates all assessments (including farmland)
- ▣ Change assessments (made improperly)
- ▣ Appeals from landowners (makes adjustments)

□ Illinois Property Tax Appeal Board (PTAB)

- Appeals by property owners
- Complaints by county farmland assessment review committee
- Decision final not subject to administrative review by court

Farmland Assessment

Applying the Law

Farmland Assessment Law

Farm parcels divided into four parts:

- Farm Homesite – land used residentially
 - market value, BoR, State Equalization
- Farm Residence
 - market value, BoR, State Equalization
- Farm Buildings
 - contributory value, BoR
- Farmland
 - use value, BoR

Land Use Categories

(Per Bureau of Census definitions)

- ❑ **Cropland** – All lands from which crops are harvested or hay cut; lands in vineyards, nursery and greenhouse crops.
- ❑ **Permanent Pasture** – Includes any pasture land except woodland pasture, & pasture land qualifying under cropland (ex - rotational pasture)
- ❑ **Other Farmland** – Woodland pasture, woodland including woodlots, timber tracts, & land in forestry program.
- ❑ **Wasteland** – Land not put into above categories. Not a result of management decision. Ex – grass waterways, creeks, streams, ponds, some roads

Land Use – Valuation

- Cropland – Valuation foundation and has broad application. Assessed according to EAV of soil productivity index – certified by IDOR
- Permanent Pasture – Assessed at $1/3$ its debased PI EAV as cropland
- Other Farmland – Assessed at $1/6$ its debased PI EAV as cropland
- Wasteland – Assessed on contributory value to other farmland – assessed $1/6$ value. If none - a zero assessment recommended

Illinois Soils by Productivity Index (PI)

PI Range:

82

130

Certified Values for Assessment Year 2016 (\$ per acre)						
Average Management PI	Gross Income	Non-Land Production Costs	Net Land Return	Agricultural Economic Value	Equalized Assessed Value	* 2016 Certified Value
82	\$607.82	\$493.30	\$114.53	\$2,164.95	\$721.65	\$52.45
83	\$613.96	\$496.85	\$117.11	\$2,213.78	\$737.93	\$54.06
84	\$620.09	\$500.40	\$119.69	\$2,262.61	\$754.20	\$55.67
85	\$626.23	\$503.95	\$122.28	\$2,311.44	\$770.48	\$57.34
86	\$632.36	\$507.50	\$124.86	\$2,360.27	\$786.76	\$59.02
87	\$638.49	\$511.05	\$127.44	\$2,409.10	\$803.03	\$60.63
88	\$644.63	\$514.60	\$130.02	\$2,457.93	\$819.31	\$62.13
89	\$650.76	\$518.15	\$132.61	\$2,506.77	\$835.59	\$63.33
90	\$656.90	\$521.70	\$135.19	\$2,555.60	\$851.87	\$74.73
91	\$663.03	\$525.26	\$137.77	\$2,604.43	\$868.14	\$81.14
92	\$669.16	\$528.81	\$140.36	\$2,653.26	\$884.42	\$87.54
93	\$675.30	\$532.36	\$142.94	\$2,702.09	\$900.70	\$93.95
94	\$681.43	\$535.91	\$145.52	\$2,750.92	\$916.97	\$100.36
95	\$687.57	\$539.46	\$148.11	\$2,799.75	\$933.25	\$106.76
96	\$693.70	\$543.01	\$150.69	\$2,848.59	\$949.53	\$113.16
97	\$699.83	\$546.56	\$153.27	\$2,897.42	\$965.81	\$119.56
98	\$705.97	\$550.11	\$155.86	\$2,946.25	\$982.08	\$125.95
99	\$712.10	\$553.66	\$158.44	\$2,995.08	\$998.36	\$133.06
100	\$718.24	\$557.21	\$161.02	\$3,043.91	\$1,014.64	\$142.74
101	\$724.37	\$560.76	\$163.61	\$3,092.74	\$1,030.91	\$152.98
102	\$730.50	\$564.31	\$166.19	\$3,141.57	\$1,047.19	\$163.51
103	\$736.64	\$567.87	\$168.77	\$3,190.40	\$1,063.47	\$174.14
104	\$742.77	\$571.42	\$171.36	\$3,239.24	\$1,079.75	\$183.86
105	\$748.91	\$574.97	\$173.94	\$3,288.07	\$1,096.02	\$192.14
106	\$755.04	\$578.52	\$176.52	\$3,336.90	\$1,112.30	\$200.53
107	\$761.17	\$582.07	\$179.11	\$3,385.73	\$1,128.58	\$208.85
108	\$767.31	\$585.62	\$181.69	\$3,434.56	\$1,144.85	\$216.34
109	\$773.44	\$589.17	\$184.27	\$3,483.39	\$1,161.13	\$223.69
110	\$779.58	\$592.72	\$186.85	\$3,532.22	\$1,177.41	\$231.12
111	\$785.71	\$596.27	\$189.44	\$3,581.06	\$1,193.69	\$240.51
112	\$791.84	\$599.82	\$192.02	\$3,629.89	\$1,209.96	\$250.99
113	\$797.98	\$603.37	\$194.60	\$3,678.72	\$1,226.24	\$261.65
114	\$804.11	\$606.92	\$197.19	\$3,727.55	\$1,242.52	\$272.51
115	\$810.25	\$610.48	\$199.77	\$3,776.38	\$1,258.79	\$283.50
116	\$816.38	\$614.03	\$202.35	\$3,825.21	\$1,275.07	\$294.72
117	\$822.51	\$617.58	\$204.94	\$3,874.04	\$1,291.35	\$306.09
118	\$828.65	\$621.13	\$207.52	\$3,922.87	\$1,307.62	\$317.60
119	\$834.78	\$624.68	\$210.10	\$3,971.71	\$1,323.90	\$329.33
120	\$840.92	\$628.23	\$212.69	\$4,020.54	\$1,340.18	\$347.44
121	\$847.05	\$631.78	\$215.27	\$4,069.37	\$1,356.46	\$394.19
122	\$853.18	\$635.33	\$217.85	\$4,118.20	\$1,372.73	\$438.47
123	\$859.32	\$638.88	\$220.44	\$4,167.03	\$1,389.01	\$453.64
124	\$865.45	\$642.43	\$223.02	\$4,215.86	\$1,405.29	\$475.48
125	\$871.59	\$645.98	\$225.60	\$4,264.69	\$1,421.56	\$522.88
126	\$877.72	\$649.53	\$228.19	\$4,313.52	\$1,437.84	\$571.59
127	\$883.85	\$653.09	\$230.77	\$4,362.36	\$1,454.12	\$621.63
128	\$889.99	\$656.64	\$233.35	\$4,411.19	\$1,470.40	\$642.69
129	\$896.12	\$660.19	\$235.93	\$4,460.02	\$1,486.67	\$662.80
130	\$902.26	\$663.74	\$238.52	\$4,508.85	\$1,502.95	\$683.13

The 5-year capitalization rate is 5.29% percent.

Income Capitalization Formula

Gross Income
- Non-land expenses
Net Return to Land

Net Return to Land
/ Capitalization rate
Agriculture Economic Value

Agriculture Economic Value
X .3333
Equalized Assessed Value

Data Supporting Calculation

- Commodity Prices
- Non-land Production Cost
 - Seed, fertilizer, fuel
 - Labor, storage
- Farm Mortgage Interest Rate

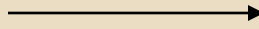
Five Year Running Averages

- Gross incomes, Non-land production costs and Interest rates used in the formula are five year running averages for the purpose of balancing the year-to-year variations in these components.
- To allow for data collection and utilization the averages lag two years behind the assessment year.
- 2015 assessments incorporate data from 2009 – 2013.

2015 Calendar of Assessment

2009 – 20013

Data



2014
Calculations



2016 Taxes

Payable



2015
Assessments



Calculated Values

- Formula produces “*Calculated Values*” for each soil type based on its Productivity Index.
- **Calculated Values** used to determine the assessed value of farmland for tax purposes until 1986.

Certified Values

- A 1986 amendment to the Farmland Assessment Law limited the change in farmland assessments for each Productivity Index (PI) to 10% a year.
- IDOR applies 10% limit to calculated values to determine the certified values for each PI.
- Certified Values now used to determine the assessed value of farmland for tax purposes.

Farmland Assessment – New

- All **calculated** values were published May 1 along with the usual **certified** values
 - *First time in decades all values have been published*
- Shows wide gap between certified values and values actually produced by farmland assessment formula
- Farmland is taxed based on its certified value

2012 Certified Farmland Values

Average Management PI	1 Gross Income	2 Non-Land Production Cost	3 Net Land Income	4 Agriculture Economic Value	5 2012 Certified Value
82	-	-	-	-	\$12.61
90	-	-	-	-	\$31.02
100	-	-	-	-	\$87.23
111	-	-	-	-	\$168.03
125	-	-	-	-	\$401.39
130	-	-	-	-	\$533.83

2014 Certified Farmland Values

Average Management PI	1 Gross Income	2 Non-Land Production Cost	3 Net Land Income	4 Agriculture Economic Value	5 Equalized Assessed Value	6 2014 Certified Value
82	\$546.67	\$447.33	\$99.34	\$1,770.83	\$590.28	\$15.26
90	\$592.06	\$475.15	\$116.92	\$2,084.10	\$694.70	\$37.53
100	\$648.79	\$509.91	\$138.89	\$2,475.68	\$825.23	\$105.55
111	\$711.20	\$548.15	\$163.05	\$2,906.43	\$968.81	\$203.32
125	\$790.62	\$598.81	\$193.81	\$3,454.65	\$1,151.55	\$485.68
130	\$818.99	\$614.20	\$204.79	\$3,650.44	\$1,216.81	\$645.93

Calculated vs. Certified Values

Average Management PI	1 Gross Income	2 Non-Land Production Cost	3 Net Land Income	4 Agriculture Economic Value
82	\$546.67	\$447.33	\$99.34	\$1,770.83
90	\$592.06	\$475.15	\$116.92	\$2,084.10
100	\$648.79	\$509.91	\$138.89	\$2,475.68
111	\$711.20	\$548.15	\$163.05	\$2,906.43
125	\$790.62	\$598.81	\$193.81	\$3,454.65
130	\$818.99	\$614.20	\$204.79	\$3,650.44

5 Equalized Assessed Value	6 2014 Certified Value
\$590.28	\$15.26
\$694.70	\$37.53
\$825.23	\$105.55
\$968.81	\$203.32
\$1,151.55	\$485.68
\$1,216.81	\$645.93

Historical Perspective

- When the Farmland Assessment Law was implemented & prior to the 10% limit, the formula was producing values ranging from a 2:1 ratio between lowest & highest producing soils.
- Yield data shows yields ranging from 2:1 across the state.
- Neighboring states average 2:1 ratio in assessed values.

Draft Language Farmland Assessment Law

(35 ILCS 200/10-115 (e))

(e) The equalized assessed value per acre of farmland for each soil productivity index, which shall be 33-1/3% of the agricultural economic value, or the percentage as provided under Section 17-5;

...but any increase or decrease in the equalized assessed value per acre by soil productivity index shall not exceed 10% from the immediate preceding year's soil productivity index certified assessed value of the median cropped soil;

□ House Bill 2651/Senate Bill 20

Legislative Impact of SB 20

- Median PI for cropland soils = PI 111
- PI 111 Certified Value for 2014 = \$203.32
- All 2015 PI values would increase by \$20.33 which is 10% of the median.
- \$5 phase-in allowance = \$15.33
- First year's estimated taxes would be an increase of \$1.14 per acre for all PI's based on 7.5% tax rate.

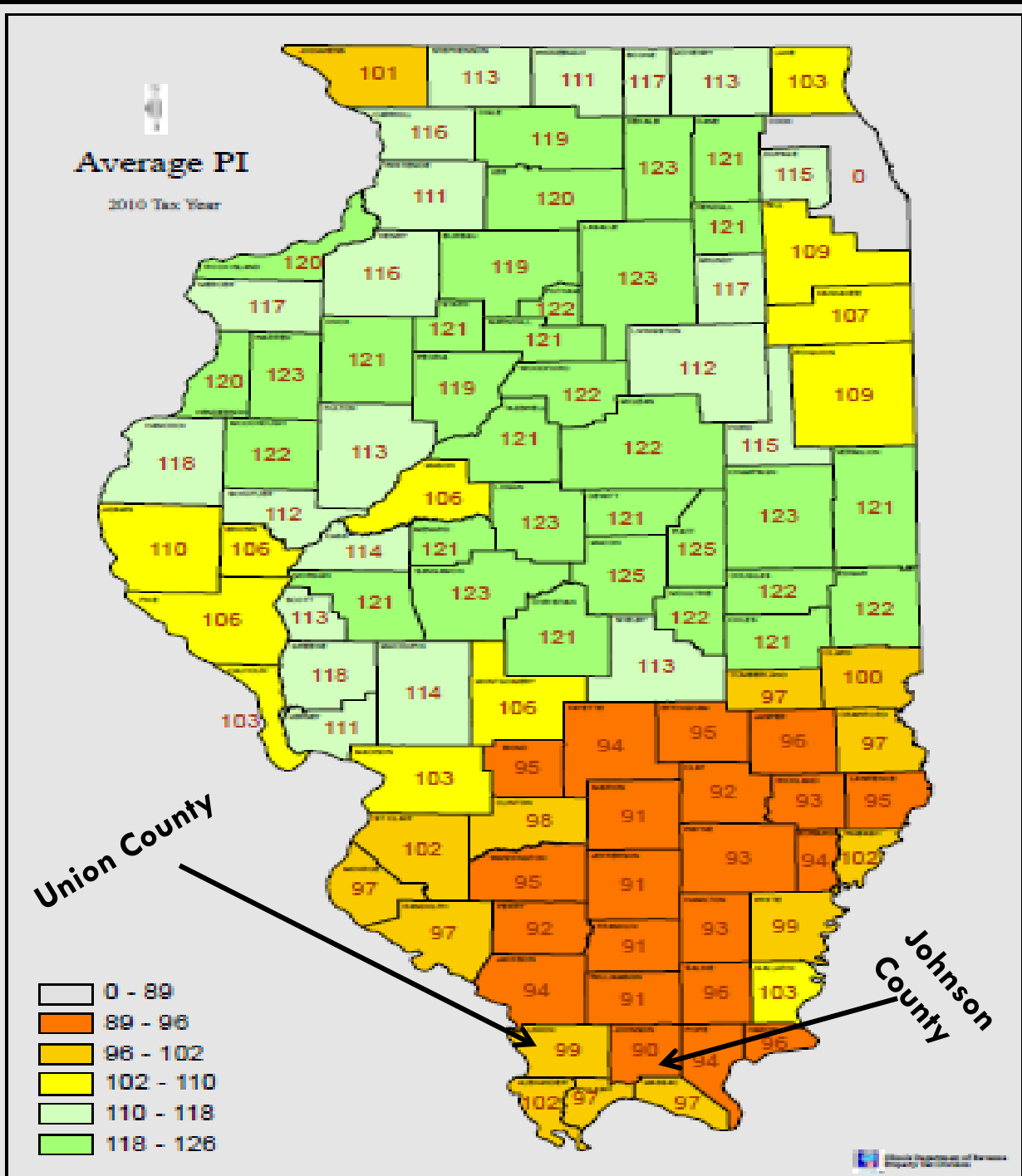
10% of the Median at PI 111

PI	2013	2014	Median for 2015	\$5 Phase-in Allowance	2015 10% of the Median	2015 Certified Values	Estimated Tax Per Acre (7.5%)
82	13.87	15.26	20.33	-\$5	15.33	30.59	2.30
90	34.12	37.53	20.33	-\$5	15.33	52.86	3.96
100	95.95	105.55	20.33	-\$5	15.33	120.88	9.06
111	184.83	203.32	20.33	-\$5	15.33	218.87	16.41
125	441.53	485.68	20.33	-\$5	15.33	501.01	37.58
130	587.21	645.93	20.33	-\$5	15.33	661.26	49.60

Outlook

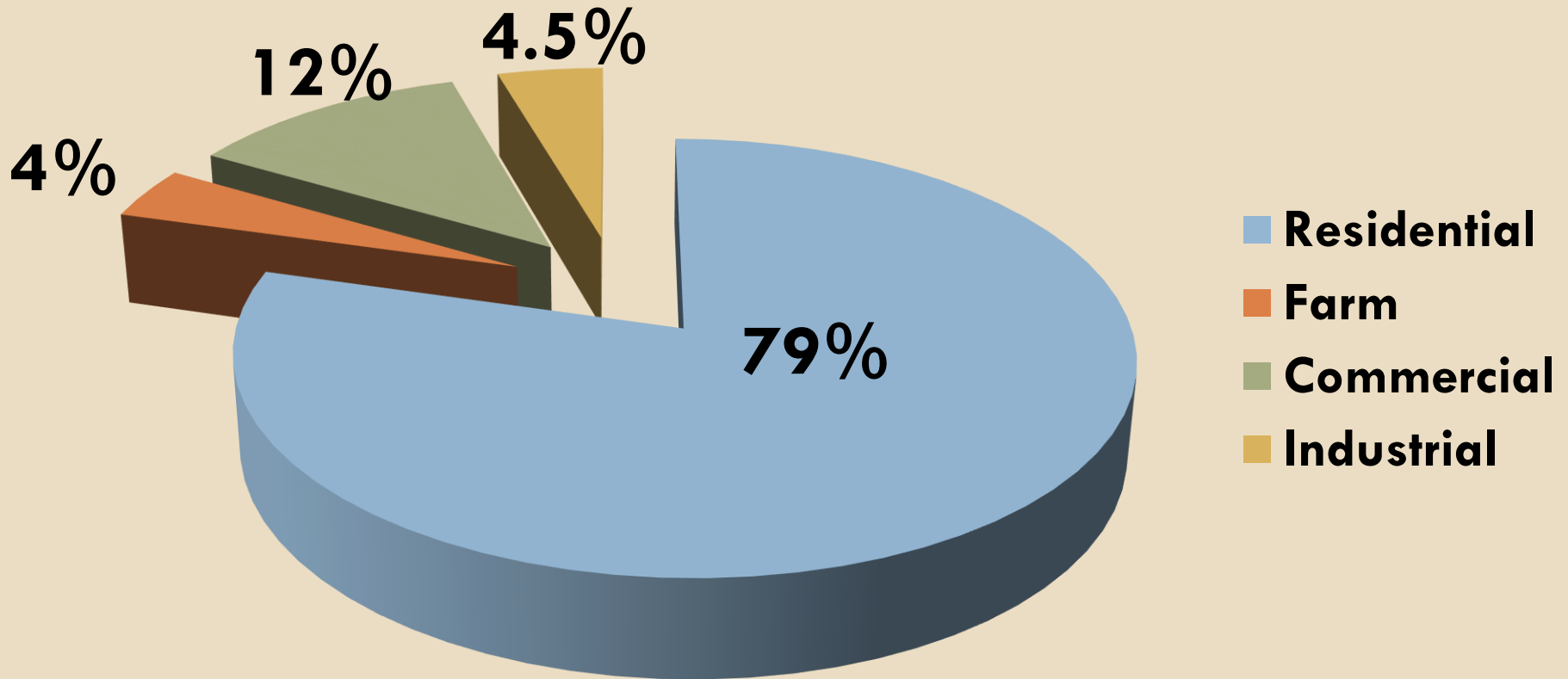
PI	2015 Certified Values	Taxes payable 2016 <i>(7.5% tax rate)</i>	2016 Certified Values <i>(\$21.86)</i>	Taxes payable 2017 <i>(7.5% tax rate)</i>	2017 Certified Values <i>(\$24.05)</i>	Taxes payable 2018 <i>(7.5% tax rate)</i>
82	\$30.59	\$2.28	\$52.45	\$3.93	\$78.50	\$5.88
91	\$59.28	\$4.44	\$81.14	\$6.08	\$105.19	\$7.88
111	\$218.65	\$16.40	\$240.51	\$18.03	\$264.56	\$19.84
121	\$372.33	\$27.92	\$394.19	\$29.56	\$418.24	\$31.36
130	\$661.26	\$49.59	\$683.12	\$51.23	\$707.17	\$53.03

Average Soil PI by County



Comparison EAV by Class of Property

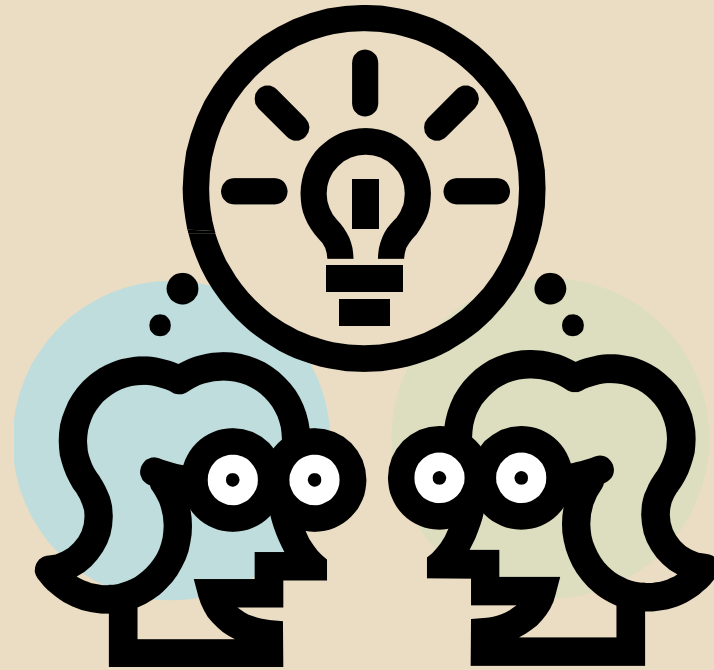
Total Percentage EAV by Property Class - Statewide



Comparison EAV by Class of Property

County	Farm	Residential	Commercial	Industrial
Effingham	12%	55%	28%	5%
Sangamon	5%	66%	27%	0.3%
McLean	7%	62%	28%	.7%
Lake	0.4%	81%	15%	4%
Will	2%	74%	13%	12%
Union	28%	52%	18%	0.5%
Johnson	27%	50%	19%	0%

Questions and Discussion



Thanks for Participating!