

PROPERTY TAX REDUCTION DOESN'T SAVE FARMLAND AND IS LITTLE HELP TO FARMERS

Special property tax reductions have been established in apparent hope of making farming more profitable in Illinois. If successful, such provisions could benefit farmers directly, and help achieve other policy goals including reduction in the amount of farmland converted to low-density suburban uses. However, available evidence indicates that loss of farmland continues, perhaps at an accelerated pace.

Most farmland isn't owned by the farmers who work it, and so they do not benefit from reductions in taxes on farmland. In fact, Illinois farmers pay about three times as much in land rent as they do in taxes. Economic theory indicates that higher land taxes would help tenant farmers become owners, reduce their overall operating costs, and probably discourage suburban "sprawl."

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THE CONTINUING LOSS OF FARMLAND

According to the American Farmland Trust, 1 million acres of farmland in the US is converted to nonagricultural use each year. Much of this is the flip-side of expanding low-density suburban development, an inefficient land-use pattern which prevails in much of the Chicago suburban area. Table 1 provides some information on trends in amount of farmland for Illinois and Chicago-area counties.

TABLE 1: LAND IN FARMS FOR CENSUS YEARS				
Area	1992	1987	1982	1978
Illinois Statewide	27,250,340	28,526,664	28,726,114	29,472,473
Cook County	40,917	46,907	49,482	51,164
DeKalb County	377,512	384,277	395,767	390,685
DuPage County	18,206	25,432	32,560	44,908
Grundy County	225,506	237,092	228,168	231,729
Kane County	203,590	227,961	240,011	250,469
Kendall County	178,222	186,440	186,139	185,583
Lake County	73,142	82,349	92,135	95,265
McHenry County	249,240	265,908	270,244	269,121
Will County	325,227	328,729	353,300	364,072
Chicago-area total	1,691,562	1,785,095	1,847,806	1,882,996
Rest of State	25,558,778	26,741,569	26,878,308	27,589,477

Source: U S Census of Agriculture

Between 1978 and 1992, the 9 Chicago-area counties lost 191,434 acres of farmland, a rate of about 37½ acres per day. During 1987-92, this rate was over 51 acres per day. From this we may conclude that farmland in the Chicago area continued to disappear and at an increasing rate, through the early 1990's. (Data from the 1997 Census of Agriculture won't be available until spring of 1999.)

OWNERS OF FARMLAND GET SPECIAL TAX BREAKS

Responding to pressure from agricultural interests, Illinois officials in 1971, 1977, 1979, 1981, and 1986 enacted laws modifying assessment practices to reduce taxes imposed on farmland. Under current practice, farmland assessment is not based on the market value of the land, but rather on the theoretical profit that could be obtained, given the quality of the land and average crop prices over the preceding five years.¹

This profit is then divided by the farmland mortgage interest rate to calculate “agricultural economic value,” which is divided by 3 to determine equalized assessed valuation (“EAV”). In practice, farm EAV

¹Farmland assessment procedures are described in chapter V of Illinois Economic and Fiscal Commission, **Report to the Illinois General Assembly on Property Tax**, December, 1997.

appears to be about 16% of market value, compared to 33% for most other types of property². This indicates that owners of farm property receive a substantial tax preference, paying only about half as much as they would if assessed on the same basis as other owners.

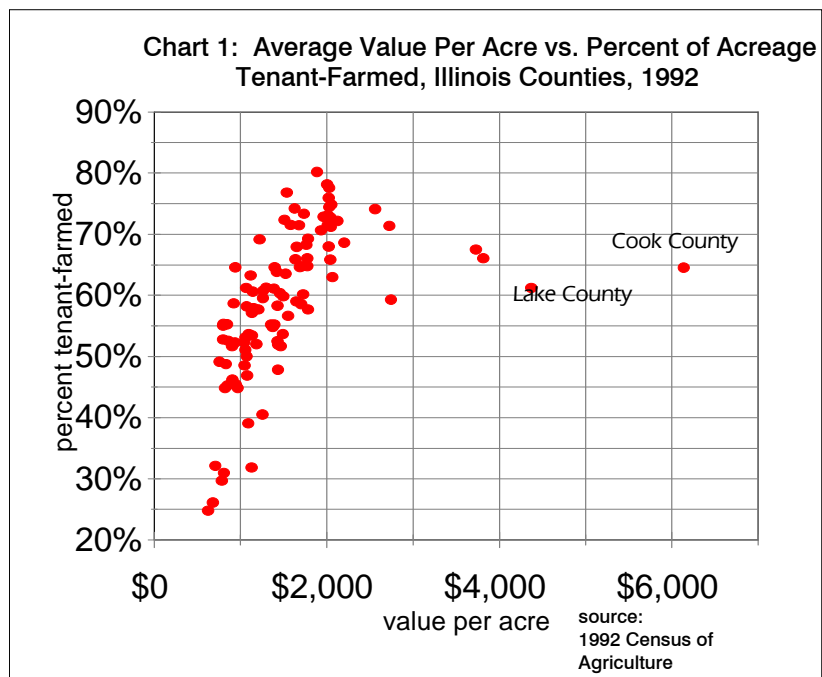
MOST FARMLAND ISN'T OWNED BY THE FARMERS WHO WORK IT

Whether this preference benefits farmers depends on whether farmers are the ones who own the farmland. A decrease in land taxes will, other things being equal, increase the income of the land owner, so farmers who are owner-operators will benefit. Tenant farmers, on the other hand, are not affected by the taxes on the land they rent, for changes in taxes aren't passed on to them. In fact, reductions of tax on farmland tend to increase its purchase price, making it more difficult for working farmers to purchase additional land.³

Table A-1 (in the Appendix), Chart 1, and Map 1 show that most Illinois farmland is not owned by the farmers who work it. Rather, 61.6% of farmland in the state is worked by tenants. Furthermore, in general, the counties in which farmland is most productive are the counties where tenant farming is most prevalent. (Although the most valuable farmland is in the northeastern corner of the state, this value is due to potential for nonagricultural use.)

The prevalence of tenant farming isn't a new situation in Illinois. Even as far back as 1950, nearly 58% of the state's farmland was tenant-farmed⁴.

Thus it appears that reductions in taxes on farmland benefit working farmers only to a limited extent, and actually harm the interests of those working farmers who wish to buy additional land in order to make their operations more efficient.



²Per the 1992 Census of Agriculture, total value of Illinois farms is reported as \$42.779 billion, while the total 1993 assessed valuation for farms was reported in **Illinois Property Tax Statistics** as \$6.791 billion.

³See, for example: Samuelson, Paul A., **Economics: An Introductory Analysis**; New York; McGraw Hill, 1964, p. 542. Gaffney, Mason, *The Philosophy of Public Finance*, especially p. 205, in Fred Harrison (ed) **The Losses of Nations**; London, Othila Press, 1998. Brown, Harry Gunnison, **The Economics of Taxation**; New York; Henry Holt & Co., 1924. p. 266.

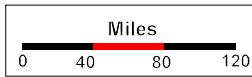
⁴1950 Census of Agriculture

Tenant Farming in Illinois, 1992

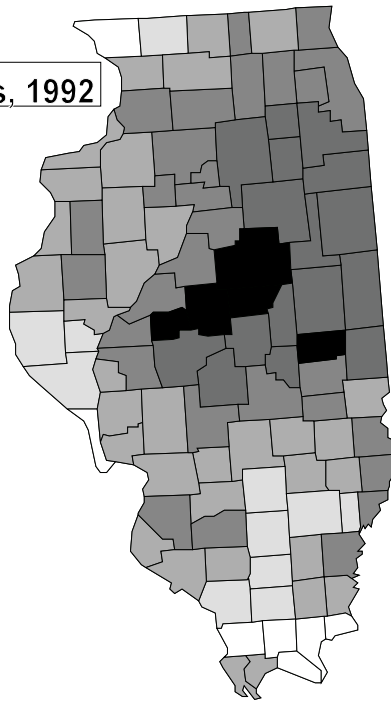
Map 1

Pct Farmed by Tenants

- 24.828 - 39.999 %
- 40 - 49.999 %
- 50 - 59.999 %
- 60 - 69.999 %
- 70 - 74.999 %
- 75 - 80.194 %



Source: 1992 Census of Agriculture

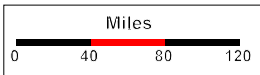


Farm Value per Acre, 1992

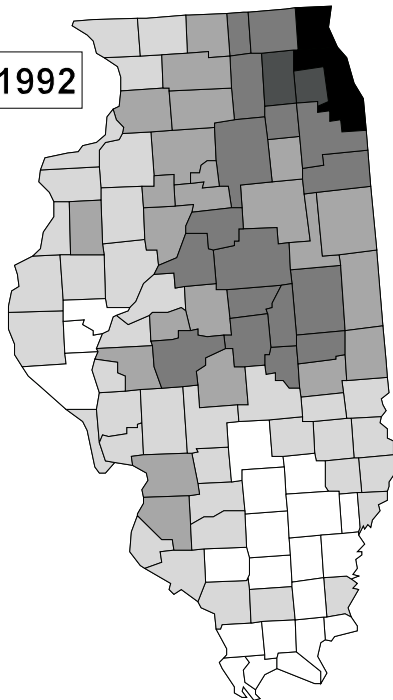
Map 2

\$/acre, land & buildings

- 624 - 1000
- 1000 - 1499
- 1500 - 1999
- 2000 - 2999
- 3000 - 3999
- 4000 - 6141



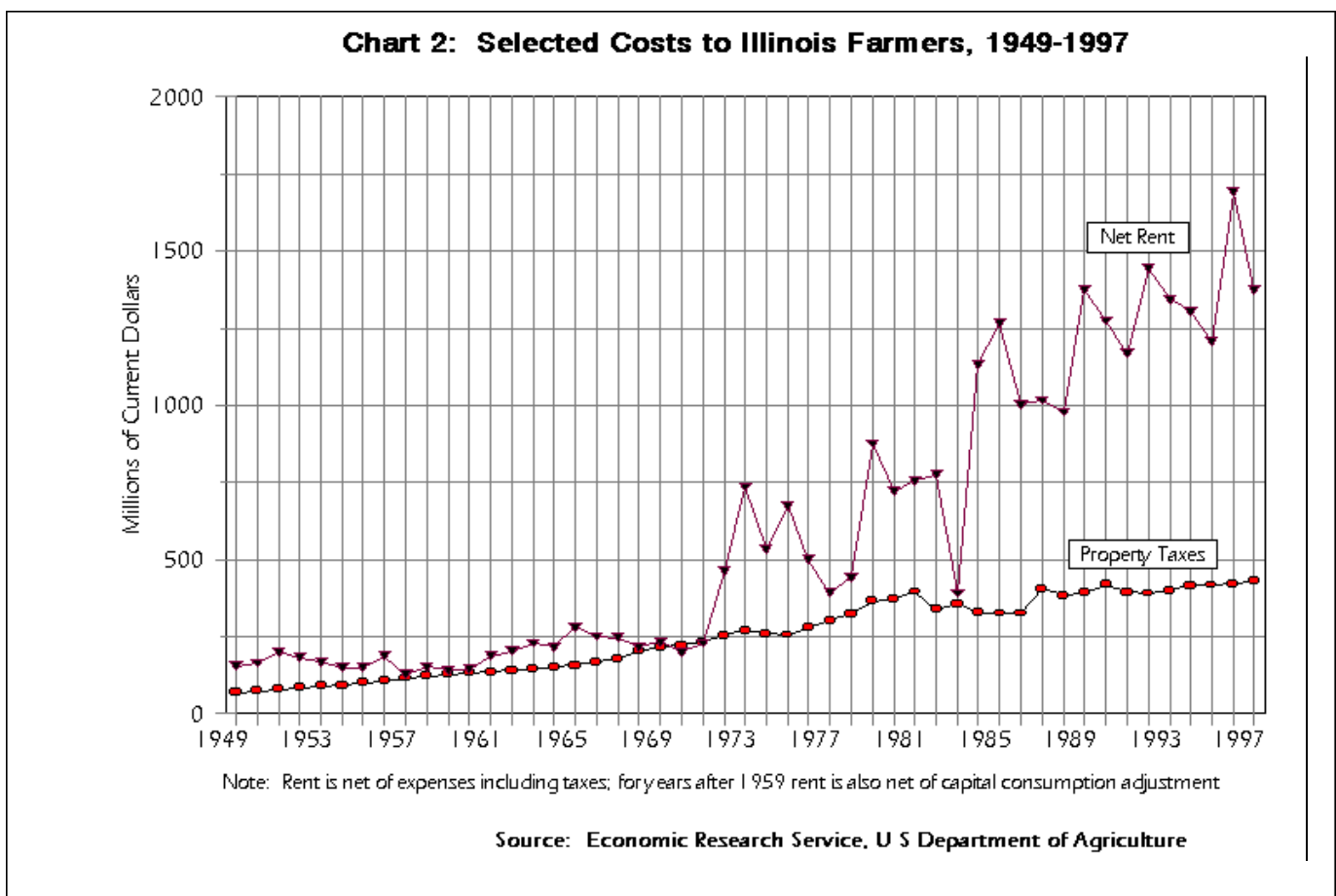
Source: 1992 Census of Agriculture



FARMERS' REAL BURDEN: NOT PROPERTY TAXES BUT RENT

Table A-2 (in the Appendix) and Chart 2 compare property taxes paid by farmers to net rent⁵ paid by tenant farmers. At least as far back as 1949, rent has always exceeded property taxes, and since about 1970 it has increased much faster. By 1997, net rent received from tenants by owners of farm property in Illinois amounted to \$1.376 billion, nearly three times the \$468.5 million paid in taxes on all farms and farm dwellings in the state. When property tax incentives are provided to farmland owners, we can expect, initially, that over 60% of the tax reduction will show up as a rent increase. Since the tax reduction also tends to increase the purchase price of farmland, the long-run impact will be somewhat worse, as working farmers will face increased difficulty financing land purchase. They cannot match the prices offered by developers of suburban subdivisions.

Increasing taxes on farmland, conversely, do not raise costs to tenant farmers. Furthermore, a general statewide (or regionwide) shift to land tax from other revenue sources facilitates redevelopment of underused urban sites, reducing development pressure at the fringe⁶.



⁵U S Department of Agriculture, Economic Research Service. “Net rent” is the amount left over after landlords have paid taxes, loan interest, operating expenses, and depreciation. Although rent in this sense isn’t exactly identical to the economic concept of “land rent”, it is reasonably close since the expenses of maintaining or replacing buildings and other improvements have been netted out.

⁶Kunstler, James Howard; **Home from Nowhere**. New York, Simon & Schuster, 1996. pp 197-206

TABLE A-1: TENURE OF FARM ACREAGE IN ILLINOIS AND ITS COUNTIES

AREA	ACRES OF FARMLAND			Percent Tenant-Farmed	Farm Value per acre
	TOTAL	OWNED BY FARMER	RENTED BY FARMER		
TOTAL STATE OF ILLINOIS	27,250,340	10,454,583	16,795,757	61.64%	\$1,549
ADAMS COUNTY	464,834	239,055	225,779	48.57%	\$1,049
ALEXANDER COUNTY	69,354	33,474	35,880	51.73%	\$903
BOND COUNTY	182,572	84,523	98,049	53.70%	\$1,094
BOONE COUNTY	135,163	49,964	85,199	63.03%	\$2,066
BROWN COUNTY	144,435	78,976	65,459	45.32%	\$850
BUREAU COUNTY	482,169	164,350	317,819	65.91%	\$1,638
CALHOUN COUNTY	99,675	67,882	31,793	31.90%	\$1,129
CARROLL COUNTY	238,906	114,731	124,175	51.98%	\$1,433
CASS COUNTY	209,437	74,093	135,344	64.62%	\$1,398
CHAMPAIGN COUNTY	571,807	153,311	418,496	73.19%	\$2,014
CHRISTIAN COUNTY	390,149	114,380	275,769	70.68%	\$1,934
CLARK COUNTY	259,923	109,919	150,004	57.71%	\$1,210
CLAY COUNTY	223,764	106,054	117,710	52.60%	\$860
CLINTON COUNTY	229,120	108,665	120,455	52.57%	\$1,430
COLES COUNTY	263,425	83,439	179,986	68.33%	\$1,766
COOK COUNTY	40,917	14,509	26,408	64.54%	\$6,141
CRAWFORD COUNTY	223,561	86,574	136,987	61.27%	\$1,067
CUMBERLAND COUNTY	176,012	68,419	107,593	61.13%	\$1,390
DE KALB COUNTY	377,512	118,346	259,166	68.65%	\$2,204
DE WITT COUNTY	206,271	45,033	161,238	78.17%	\$2,008
DOUGLAS COUNTY	259,498	58,008	201,490	77.65%	\$2,028
DU PAGE COUNTY	18,206	5,907	12,299	67.55%	\$3,729
EDGAR COUNTY	354,480	101,038	253,442	71.50%	\$1,679
EDWARDS COUNTY	116,312	62,495	53,817	46.27%	\$909
EFFINGHAM COUNTY	257,761	124,491	133,270	51.70%	\$1,467
FAYETTE COUNTY	341,274	162,645	178,629	52.34%	\$938
FORD COUNTY	300,127	77,205	222,922	74.28%	\$1,627
FRANKLIN COUNTY	160,533	88,457	72,076	44.90%	\$970
FULTON COUNTY	431,415	202,040	229,375	53.17%	\$1,057
GALLATIN COUNTY	171,938	85,845	86,093	50.07%	\$1,073
GREENE COUNTY	303,715	144,664	159,051	52.37%	\$1,045
GRUNDY COUNTY	225,506	61,192	164,314	72.86%	\$1,965
HAMILTON COUNTY	201,567	90,498	111,069	55.10%	\$798
HANCOCK COUNTY	433,246	201,496	231,750	53.49%	\$1,132
HARDIN COUNTY	37,976	28,547	9,429	24.83%	\$624
HENDERSON COUNTY	203,974	82,404	121,570	59.60%	\$1,263

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AREA	ACRES OF FARMLAND			Percent Tenant-Farmed	Farm Value per acre
	TOTAL	OWNED BY FARMER	RENTED BY FARMER		
HENRY COUNTY	453,944	182,182	271,762	59.87%	\$1,498
IROQUOIS COUNTY	662,629	188,374	474,255	71.57%	\$1,580
JACKSON COUNTY	186,425	98,927	87,498	46.93%	\$1,075
JASPER COUNTY	258,014	115,463	142,551	55.25%	\$1,394
JEFFERSON COUNTY	217,191	119,702	97,489	44.89%	\$823
JERSEY COUNTY	180,675	86,663	94,012	52.03%	\$1,186
JO DAVIESS COUNTY	290,454	176,964	113,490	39.07%	\$1,090
JOHNSON COUNTY	94,681	69,938	24,743	26.13%	\$683
KANE COUNTY	203,590	68,961	134,629	66.13%	\$3,814
KANKAKEE COUNTY	358,920	102,243	256,677	71.51%	\$2,010
KENDALL COUNTY	178,222	50,940	127,282	71.42%	\$2,727
KNOX COUNTY	385,560	160,562	224,998	58.36%	\$1,432
LAKE COUNTY	73,142	28,325	44,817	61.27%	\$4,372
LA SALLE COUNTY	612,112	176,015	436,097	71.24%	\$2,047
LAWRENCE COUNTY	169,292	66,583	102,709	60.67%	\$1,141
LEE COUNTY	414,442	145,679	268,763	64.85%	\$1,774
LIVINGSTON COUNTY	637,551	169,547	468,004	73.41%	\$1,738
LOGAN COUNTY	369,952	73,273	296,679	80.19%	\$1,890
MCDONOUGH COUNTY	344,649	124,368	220,281	63.91%	\$1,419
MCHENRY COUNTY	249,240	101,373	147,867	59.33%	\$2,746
MCLEAN COUNTY	709,106	170,465	538,641	75.96%	\$2,024
MACON COUNTY	310,518	79,296	231,222	74.46%	\$2,030
MACOUPIN COUNTY	402,310	180,005	222,305	55.26%	\$1,354
MADISON COUNTY	299,709	122,805	176,904	59.03%	\$1,647
MARION COUNTY	253,916	129,978	123,938	48.81%	\$831
MARSHALL COUNTY	203,749	62,595	141,154	69.28%	\$1,785
MASON COUNTY	282,222	86,909	195,313	69.21%	\$1,223
MASSAC COUNTY	98,838	67,078	31,760	32.13%	\$710
MENARD COUNTY	164,158	37,994	126,164	76.86%	\$1,539
MERCER COUNTY	312,128	131,184	180,944	57.97%	\$1,153
MONROE COUNTY	187,039	84,426	102,613	54.86%	\$1,374
MONTGOMERY COUNTY	371,936	143,993	227,943	61.29%	\$1,300
MORGAN COUNTY	311,266	109,925	201,341	64.68%	\$1,688
MOULTRIE COUNTY	184,599	50,277	134,322	72.76%	\$2,043
OGLE COUNTY	392,639	162,619	230,020	58.58%	\$1,702
PEORIA COUNTY	261,482	110,555	150,927	57.72%	\$1,783
PERRY COUNTY	167,602	74,817	92,785	55.36%	\$803

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AREA	ACRES OF FARMLAND			Percent Tenant-Farmed	Farm Value per acre
	TOTAL	OWNED BY FARMER	RENTED BY FARMER		
PIATT COUNTY	251,277	63,091	188,186	74.89%	\$2,051
PIKE COUNTY	443,475	241,661	201,814	45.51%	\$945
POPE COUNTY	67,998	47,765	20,233	29.76%	\$785
PULASKI COUNTY	82,426	38,899	43,527	52.81%	\$800
PUTNAM COUNTY	78,081	24,993	53,088	67.99%	\$1,654
RANDOLPH COUNTY	270,598	132,253	138,345	51.13%	\$1,059
RICHLAND COUNTY	188,999	80,948	108,051	57.17%	\$1,132
ROCK ISLAND COUNTY	175,847	81,397	94,450	53.71%	\$1,493
ST CLAIR COUNTY	264,140	92,865	171,275	64.84%	\$1,720
SALINE COUNTY	141,703	58,493	83,210	58.72%	\$921
SANGAMON COUNTY	446,750	124,071	322,679	72.23%	\$2,123
SCHUYLER COUNTY	207,388	92,655	114,733	55.32%	\$844
SCOTT COUNTY	128,867	53,855	75,012	58.21%	\$1,073
SHELBY COUNTY	402,212	159,456	242,756	60.36%	\$1,457
STARK COUNTY	169,622	57,446	112,176	66.13%	\$1,774
STEPHENSON COUNTY	314,886	164,196	150,690	47.86%	\$1,436
TAZEWELL COUNTY	336,450	107,543	228,907	68.04%	\$2,026
UNION COUNTY	119,370	82,351	37,019	31.01%	\$807
VERMILION COUNTY	488,215	134,762	353,453	72.40%	\$1,513
WABASH COUNTY	115,517	42,412	73,105	63.29%	\$1,118
WARREN COUNTY	317,467	115,658	201,809	63.57%	\$1,525
WASHINGTON COUNTY	297,003	116,524	180,479	60.77%	\$1,262
WAYNE COUNTY	333,238	169,411	163,827	49.16%	\$755
WHITE COUNTY	234,973	83,100	151,873	64.63%	\$939
WHITESIDE COUNTY	399,312	158,891	240,421	60.21%	\$1,728
WILL COUNTY	325,227	84,004	241,223	74.17%	\$2,563
WILLIAMSON COUNTY	89,591	53,279	36,312	40.53%	\$1,256
WINNEBAGO COUNTY	203,428	88,119	115,309	56.68%	\$1,551
WOODFORD COUNTY	295,844	100,853	194,991	65.91%	\$2,045

Source: 1992 Census of Agriculture

TABLE A2: PROPERTY TAXES AND RENT PAID FOR ILLINOIS FARMS											(millions of current \$)
Year	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
property taxes including dwellings	\$74	\$80	\$85	\$92	\$96	\$101	\$107	\$114	\$123	\$131	\$138
property taxes excluding dwellings	\$68	\$74	\$79	\$85	\$89	\$93	\$99	\$106	\$115	\$122	\$128
net rent including cap con adj	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
net rent excluding cap con adj	\$154	\$164	\$201	\$181	\$168	\$149	\$149	\$186	\$129	\$150	\$142
Year	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
property taxes including dwellings	\$143	\$147	\$152	\$156	\$161	\$167	\$180	\$191	\$220	\$233	\$240
property taxes excluding dwellings	\$132	\$136	\$142	\$145	\$151	\$156	\$167	\$178	\$204	\$216	\$222
net rent including cap con adj	\$143	\$187	\$202	\$228	\$215	\$282	\$250	\$248	\$215	\$233	\$201
net rent excluding cap con adj	\$168	\$212	\$230	\$260	\$251	\$322	\$295	\$299	\$273	\$299	\$264
Year	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
property taxes including dwellings	\$252	\$275	\$292	\$280	\$274	\$298	\$321	\$342	\$383	\$390	\$414
property taxes excluding dwellings	\$232	\$254	\$271	\$259	\$255	\$279	\$302	\$324	\$365	\$373	\$397
net rent including cap con adj	\$229	\$464	\$735	\$534	\$673	\$499	\$391	\$444	\$876	\$722	\$755
net rent excluding cap con adj	\$293	\$530	\$805	\$611	\$757	\$586	\$497	\$549	\$990	\$869	\$934
Year	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
property taxes including dwellings	\$353	\$374	\$347	\$344	\$346	\$434	\$414	\$425	\$451	\$424	\$421
property taxes excluding dwellings	\$338	\$356	\$329	\$325	\$325	\$405	\$383	\$392	\$419	\$394	\$391
net rent including cap con adj	\$775	\$390	\$1,134	\$1,266	\$1,004	\$1,015	\$978	\$1,375	\$1,274	\$1,167	\$1,442
net rent excluding cap con adj	\$945	\$577	\$1,326	\$1,460	\$1,194	\$1,015	\$978	\$1,561	\$1,456	\$1,350	\$1,621
Year	1993	1994	1995	1996	1997						
property taxes including dwellings	\$433	\$452	\$457	\$459	\$468	Source: Economic Research Service					
property taxes excluding dwellings	\$400	\$415	\$418	\$421	\$429	U S Department of Agriculture					
net rent including cap con adj	\$1,344	\$1,305	\$1,207	\$1,692	\$1,376						
net rent excluding cap con adj	\$1,520	\$1,484	\$1,390	\$1,877	\$1,561	Note: No capital consumption adjustments were made prior to 1960.					

