

The Farm Land Tax Issue

(Editor's Note: The following article was prepared by a team of Penn State agricultural economists, Donald J. Epp, Peter H. B. Norton and William M. Carroll.)

A referendum on the ballot for the May 15, 1973 primary election, if supported by a majority, will result in an amendment to Pennsylvania Constitution which will authorize the General Assembly to establish standards and qualifications for agriculture reserves and land actively devoted to agricultural use, and make special provision for the taxation of agricultural land.

Possible Effects On farmers' tax bills.

A study conducted at The Pennsylvania State University examined some possible effects of use-value assessment of farmland on the tax burden of farmers. The study, which was summarized in the October 1972 issue of Farm Economics, lead to

the conclusion that in the short-run there will be great variation in impact between counties and between farms within any given county. There were 170 farms studied in 8 different counties of Pennsylvania. The study looked at what would happen to the tax bill of each of these farms if it were assessed according to a hypothetical use-value assessment system, similar to the one used in New Jersey.

If this use-value assessment were introduced for farmland without any changes in the assessment of other properties or any changes in the tax rate, the effect on farms would vary considerably. One farm in the study would pay only 2 percent of the present tax bill if it were assessed according to agricultural value. Another farm would pay 482 percent more than the present taxes. The average change in the amount of taxes paid per farm ranged from a

decrease of about \$360 for Bucks County farms to an increase of over \$1,000 per farm in Lancaster County. Most of the farms studied in the area near Philadelphia would experience decreases in their taxes, although some did show an increase under the conditions assumed by the study. In other areas of the state most farms would experience an increase in taxes if use-value assessment were used. This indicates that present farmland assessment is below agricultural value in many areas of the Commonwealth.

A more recent analysis of farmland sales in all counties of the Commonwealth in 1970 and 1971 shows that farmland is presently assessed at a smaller percentage of its market value than is residential property in 52 of our 67 counties. Agricultural land is assessed at a significantly lower ratio than commercial property in 45 counties. It seems

likely that reassessment in counties such as these would result in increased farmland assessments. In some cases use-value assessment may reduce the taxes paid for farmland after reassessment that would otherwise have an increase in its assessment.

Participation might be voluntary.

If the constitutional amendment is approved, the effect of any Agricultural Use-Value Assessment Act that the legislature might pass would depend on whether use-value assessment was voluntary with the individual farmer or whether it was mandated throughout the Commonwealth. If participation is voluntary, the farmer who sees that his taxes would increase if he participated would be unlikely to join. Another variation that might be considered is that of allowing individual counties to choose whether they participate or not. Those counties where it would be of benefit to a significant number of individuals might participate whereas other counties might delay their participation. The important thing to note is that the effect may vary depending on the type of actual law passed if the amendment is approved.

Agriculture accounts for relatively small share.

For the Commonwealth as a whole, agriculture accounts for over 818-million dollars of real estate assessment - about 4 percent of the total assessed value of taxable properties in the Commonwealth (see Table 1). Thus, even though agriculture is an important industry in Pennsylvania, it accounts for a relatively small portion of the total taxable real estate in the Commonwealth. Residential, commercial, and industrial properties each account for a larger portion of the total base. This percentage varies from one county to another. No county, however, has more than one-third of its assessment in agricultural land. Most of the leading agricultural counties have less than 10 percent of their real

estate assessment base in agriculture.

The counties where agricultural use-value assessment might result in lower tax payments for farmers are principally in the Philadelphia area. If the reduced assessment found in the sample of farms in the Penn State study were to hold true for all farms in the county, it is possible to calculate the reduction in property tax base that would result. For the three counties in the Philadelphia area (Bucks, Montgomery, and Chester), such a change would result in a reduction in tax base of less than 1 percent in Montgomery County, about 2 percent in Chester County, and about 3 percent in Bucks County. The variation between townships and school districts within a county may show that some would have a greater reduction in their property tax base while others would have less than the county average. In any case, the amounts involved are relatively small when compared to the total assessment base of the county.

The effect of use-value assessment in reducing the tax base might be even further lessened if the particular assessment procedure passed by the Legislature included a tax roll-back feature. Under these provisions any property that switches from agricultural to non-agricultural use would pay a penalty to the municipality equivalent to the reduction in taxes for a specified number of years, usually somewhere between three and five years. This roll-back tax payment reduces the tax-base reduction that comes about through agricultural use-value assessment. Again, it is very important to note that differences in possible acts that might be enacted by the Legislature makes it difficult to predict an exact effect of such a program.

General conclusions.

It is possible, however, to make some general conclusions on the basis of evidence available. (1) It

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