

Kansas Property Taxes

Allen M. Featherstone, Leah Tsoodle,
Kevin Herbel



Introduction

- During the last Kansas Legislative session, several pieces of legislation were introduced that would affect the property taxes farmers would pay
- Each of these would have increased the tax burden paid by farmers
- Some argued this would be a reversal of the tax policy put in place in 2012 and 2013
- “The folks in the high populated areas – we have borne the burden of the government,” [Senator Jeff] Melcher [R-Leawood] said, adding that agriculture producers “don’t realize how easy they’ve had it.”

Introduction

- Senate Bill 178
 - Change the computation base on county cash rental rates
 - Use a capitalization rate on the interest rate on new federal land bank loans
 - Use a five year average for rental rates and capitalization rate
- Senate Bill 302
 - Place an excise tax on land of \$3 per acre

Objectives

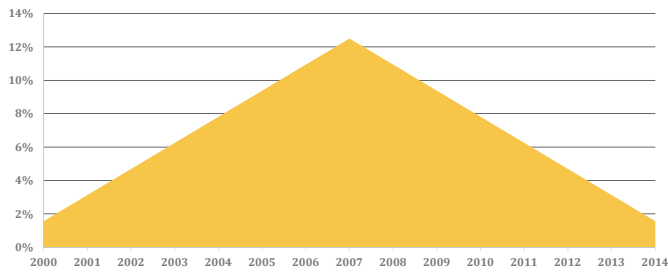
- Providing an understanding regarding the net return computation
- Answer why are property tax appraisals increasing and the outlook for agricultural real estate taxes in the future
- Estimate the implications of some of the proposals from last year’s legislative session

Agricultural Property Tax Computation Process

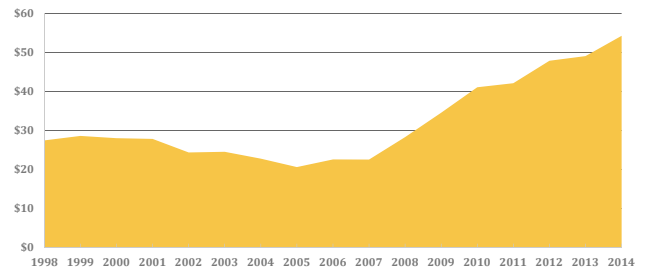
Property Tax Computation

- Defined as the eight year average of eight year average of return to landlord
- This eight year average is then capitalized at the statute defined capitalization rate
- Process places a weight on middle years of the process
- Designed to have a more smoothing effect on tax values
 - Goal is to remove the variability of year to year changes
- Landlord net return made up of last 15 years return to the landlord
 - The 2016 Landlord Net Income made up of individual values from 2000 - 2014

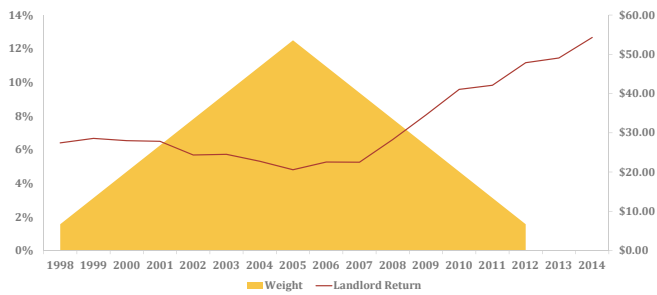
Property Tax Computation Process Eight Year Average of an Eight Year Average



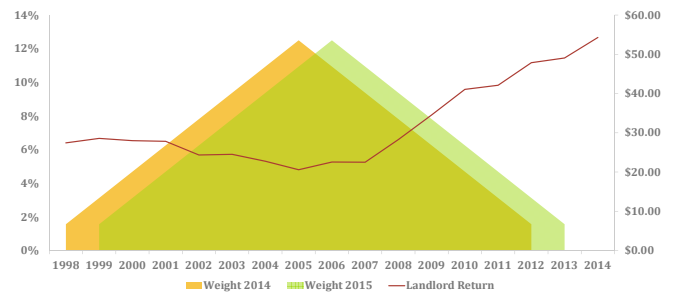
Non-irrigated Single Year Landlord Return for Barton County, 1998 - 2014 (Central)



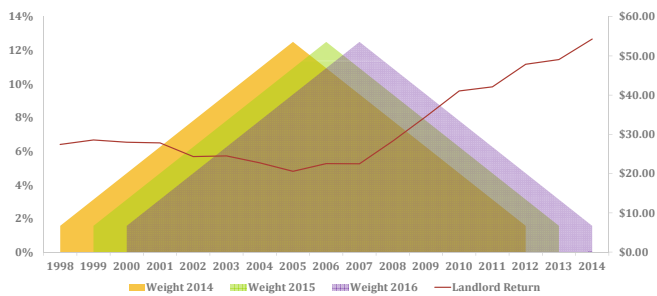
Non-irrigated Computation Process for Barton County



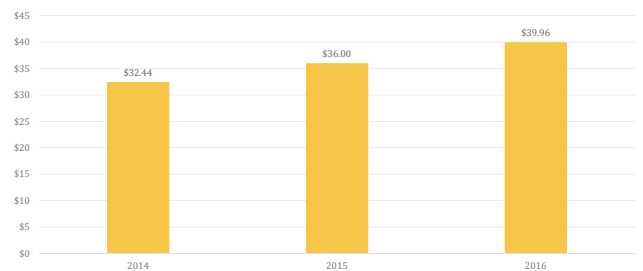
Non-irrigated Computation Process for Barton County



Non-irrigated Computation Process for Barton County

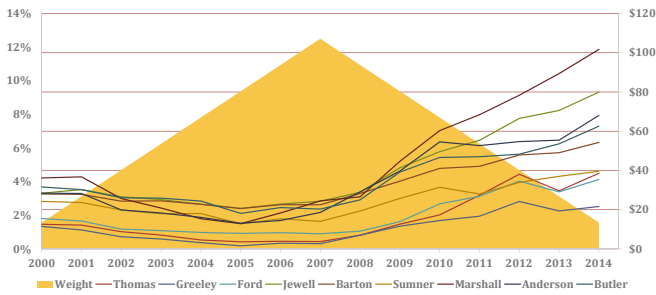


Impact of Moving Forward One Year for Barton County

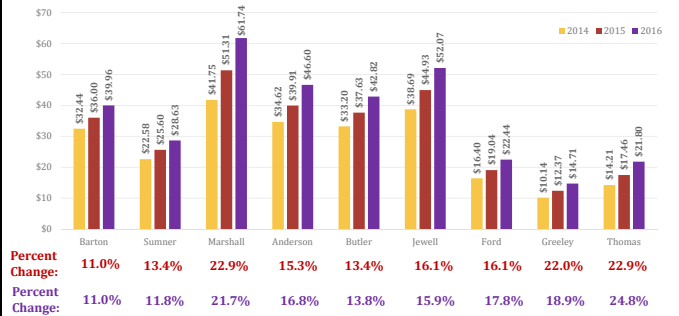


The net returns for Barton county increased by 11.0% from 2014 to 2015 tax computations.
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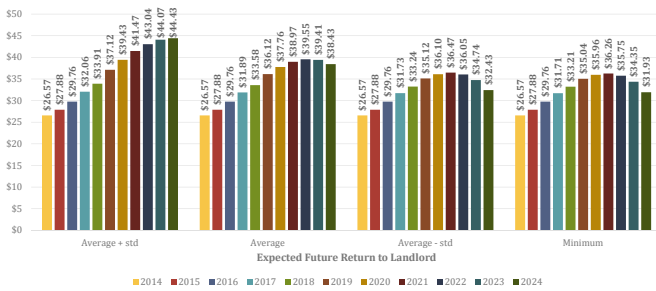
Non-irrigated Computation Process for Kansas



Impact of Moving Forward One Year for Kansas (Tax Years 2014 to 2015 and 2015 to 2016)



Impact of Moving Forward In Barton County Kansas

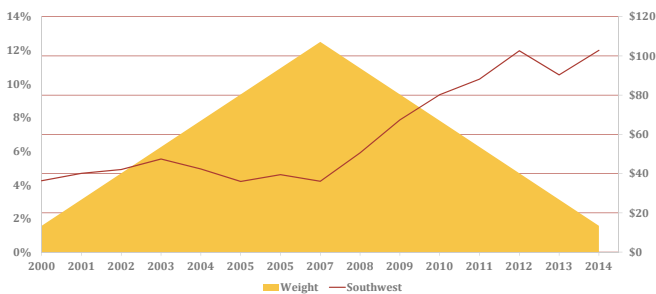


Turning Point of Landlord Returns

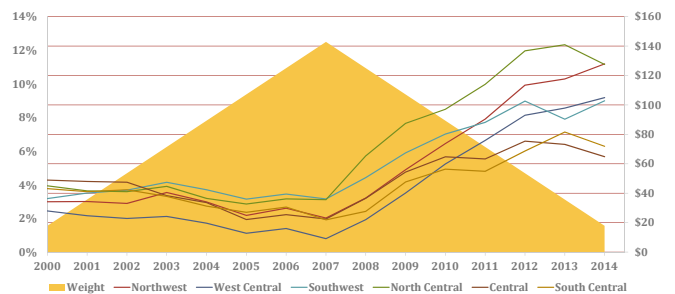
- How long will landlord returns increase?
- How much will they have increased by then?
- All based on future assumption of landlord returns
 - Assuming a constant return for 2015 and after

	Turning Point	% Increase from 2016
Minimum	2021	22%
Average - Std	2021	23%
Average	2022	33%
Average + Std	2024	49%
Maximum	2024	71%

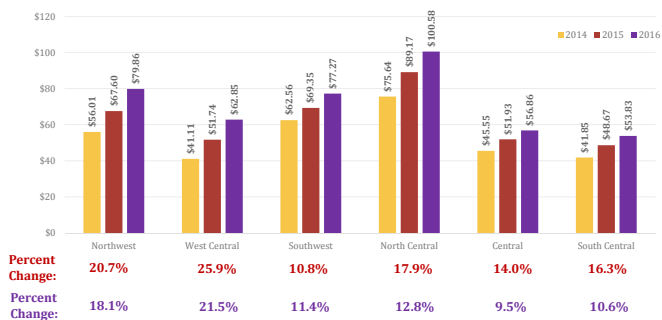
Irrigated Computation Process for Southwest Kansas



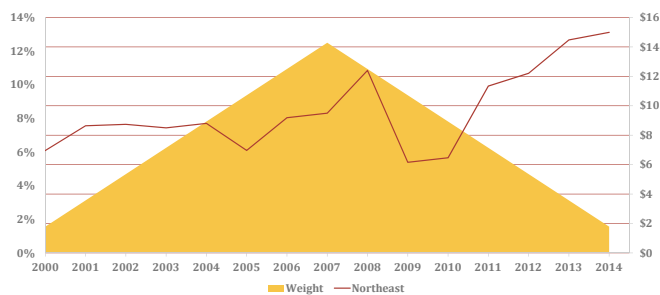
Irrigated Computation Process for Kansas



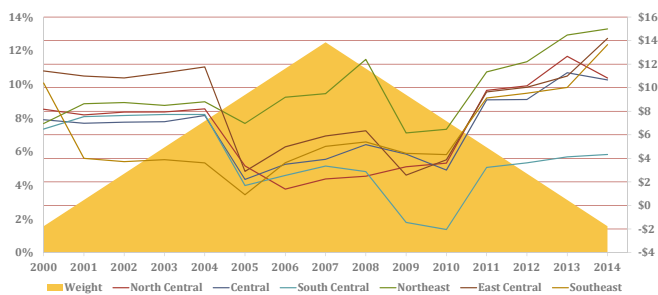
Irrigated Changes (Tax Years 2014 to 2015 and 2015 to 2016)



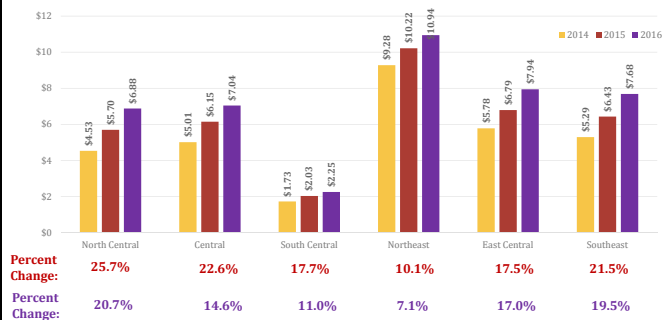
Native Pasture Computation Process for Northeast Kansas



Native Pasture Computation Process for Kansas



Native Pasture Changes (Tax Years 2014 to 2015 and 2015 to 2016)



Summary

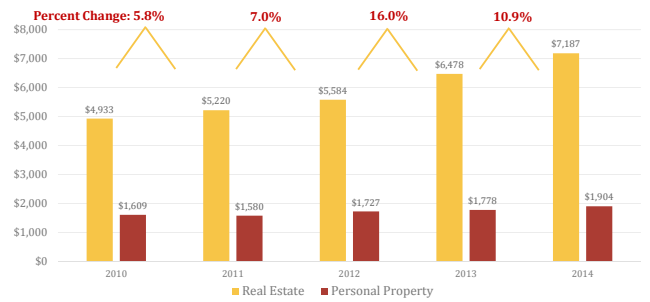
- Kansas real estate tax values on non-irrigated land are likely to increase for the next 5 to 7 years assuming returns are close to the 17 year average
- Kansas real estate taxes on irrigated land are likely to increase for the next 6 to 7 years assuming returns a close to the 17 year average
- Kansas real estate taxes on pasture land are likely to increase less than irrigated or non-irrigated land although they will likely increase the next few years

Farm Management Association Property Tax Payments

Methods

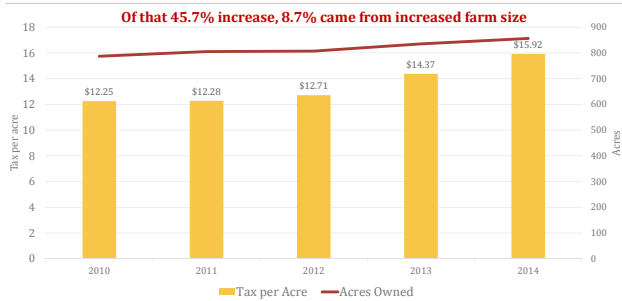
- Use Kansas Farm Management Data to examine the taxes paid from 2010 through 2014
 - Real Estate and Personal Property Taxes are available for 851 farmers for all years

Kansas Farmers Personal Property and Real Estate Taxes 2010 - 2014



851 Farms

Kansas Farmers Owned Acres and Real Estate Taxes Per Acre 2010 - 2014



728 Farms

Senate Bill 178

Change the Capitalization rate, move to a five year average, and use "cash rent"

Issue under Senate Bill 178

- The capitalization rate would fall from 14.89% after adding on the county tax to 4.73%
 - This would increase the tax values by a factor of 3.15
- Cash rental data are not available on a county basis.
 - A source for the cash rental data will need to be identified
 - For this analysis, using a five year average of landlord share to determine "cash rent"
 - Five year average of a eight year average
- Land tax value would increase from \$218 to \$991 or 4.55 times
- Real estate taxes would increase roughly \$25,507 per farm

Year	Federal Land Bank Interest Rate	"Cash Rent"
2010	5.23%	\$29.79
2011	4.97%	\$33.70
2012	4.97%	\$38.77
2013	4.19%	\$42.93
2014	4.28%	\$46.88
Average	4.73%	N/A
Current Method	14.89%	\$32.44

Senate Bill 302

\$3 Excise tax per acre

Senate Bill 302

- Multiplied acres owned by \$3
- Ignores any potential effect on rented land
- Modified 2014 only
- Property taxes would increase an average of \$2,892 per farm

Summary

- Changing the capitalization rate and the time frame for landlord return (SB 178) could result in taxes of 4.55 times current levels
 - Most would come from the proposed capitalization rate adjustment
 - Landlord net incomes would adjust more quickly to market conditions
 - Cash rent is not available on a county wide basis, making it difficult to calculate
- Under a \$3 per acre excise tax (SB 302), it is estimated that the Kansas tax paid in 2014 would increase by \$2,892 per farm
 - Equity issues would exist across different land types and regions
- Property taxes are likely to increase over the next 5 to 7 years