

3. Do Kansas Farmers Pay Taxes?

Allen Featherstone

<afeather@k-state.edu>

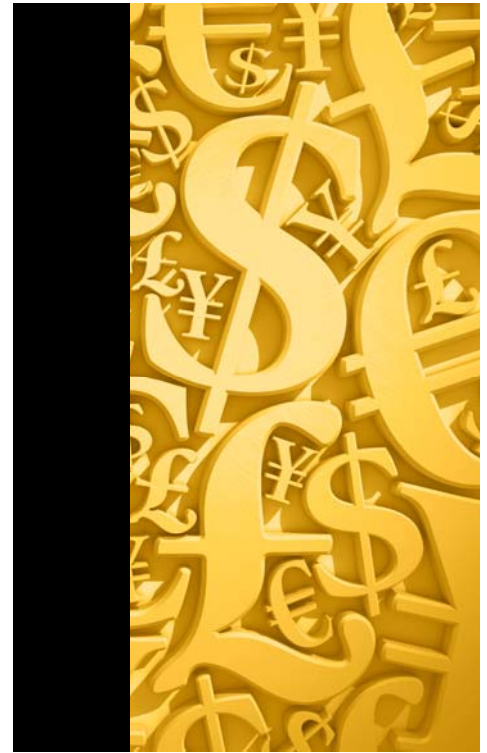
Allen M. Featherstone, Professor and Head of the Department of Agricultural Economics and Director of Masters of Agribusiness at Kansas State University, holds M.S. and Ph.D. degrees in agricultural economics from Purdue University. He also holds a B.S. in agricultural economics and economics from the University of Wisconsin-River Falls. Professor Featherstone is recognized as a leading scholar in agricultural finance. His work has resulted in teaching and research awards and quotation in the Wall Street Journal, the Economist, and other publications. He served as Associate Editor for the American Journal of Agricultural Economics and on the editorial board of Choices. He has more than 120 articles published in a variety of journals. He has experience lecturing and researching in Europe, Asia, Africa, and South America.

Abstract/Summary

During the last Kansas Legislative session proposals were introduced to change the taxes that farmers pay. This presentation will examine the property, sales, and income taxes that Kansas farmers pay using the Kansas Farm Management Association data.

Do Kansas Farmers Pay Taxes?

Allen M. Featherstone, Kevin Herbel,
Leah Tsoodle



Introduction

- During the last Kansas Legislative session, several pieces of legislation were introduced that would affect the 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 264
 - Repeal of sales tax exemption for farm machinery and equipment
- Senate Bill 302
 - Place an excise tax on land of \$3 per acre
- House Bill 2427
 - Elimination of sales tax exemption of dyed fuel



Previous Work

- Featherstone, Langemeier, Delano, and Flinchbaugh examined the Impact of Kansas Tax Policy on the Farm Economy
- Study of Kansas taxes paid on farms from 1990 to 1994
- Examined the effect of changes in the tax mix at that time on the farm economy
- Average tax paid was \$4,865
 - 15% state income tax
 - 8.2% business sales tax
 - 21.7% personal sales tax
 - 55.1% via property tax



Objectives

- Use Kansas Farm Management Data to examine the taxes paid by farmers
- Estimate the implications of some of the proposals from last year's legislative session
- Discuss the outlook for agricultural real estate taxes in the future



Methods

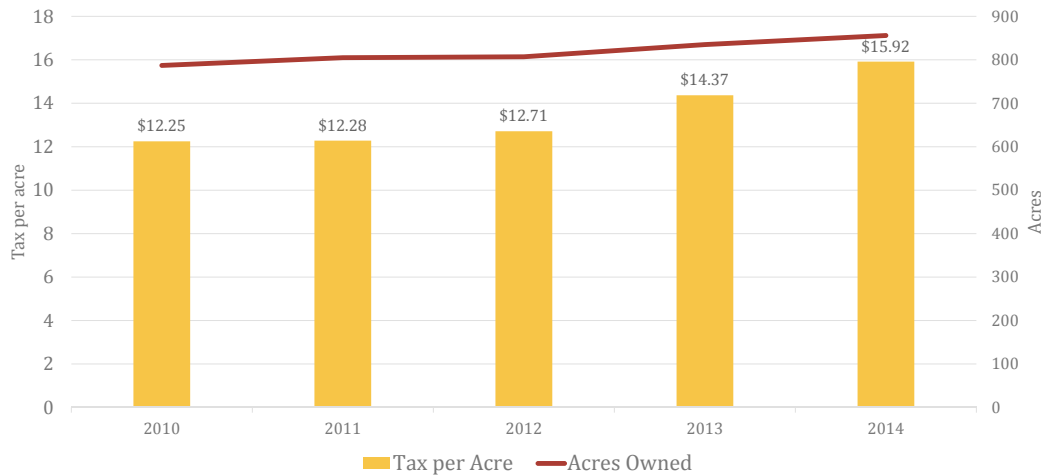
- Use Kansas Farm Management Data to examine the taxes paid from 2010 through 2014
 - Real Estate and Personal Property Taxes are available for 851 farmers for all years
- Kansas and Federal income taxes represent the previous tax year
 - Only used those farms where information was available for 5 years
- Personal sales taxes are estimated from KFMA family living summaries
- Business sales taxes are estimated in a manner similar to Featherstone et. al, 1995

Kansas Farmers Personal Property and Real Estate Taxes 2010 - 2014



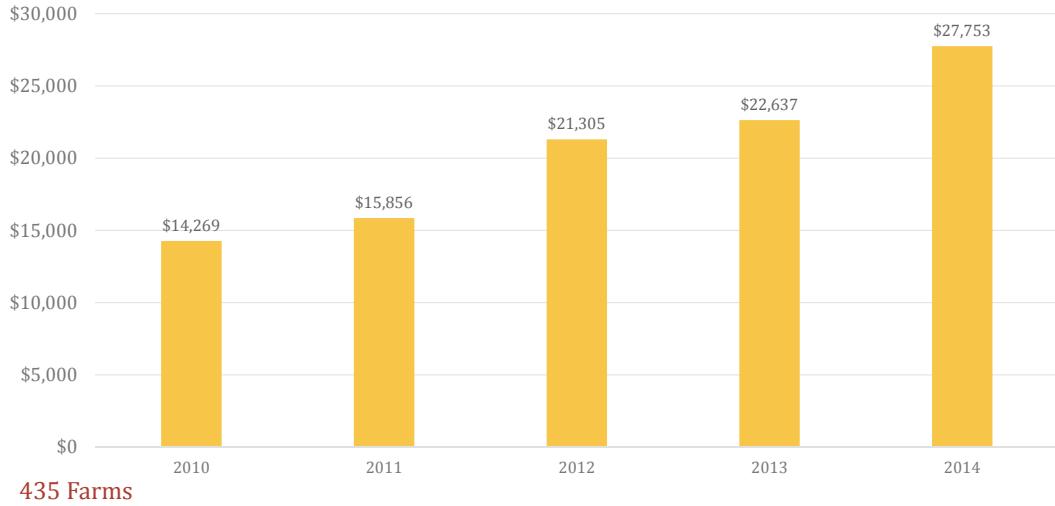
851 Farms

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

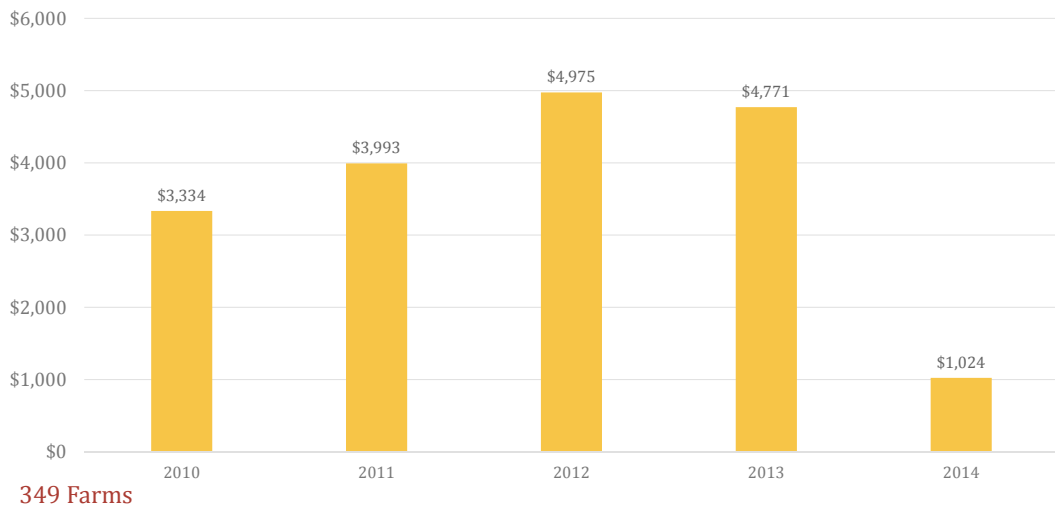


728 Farms

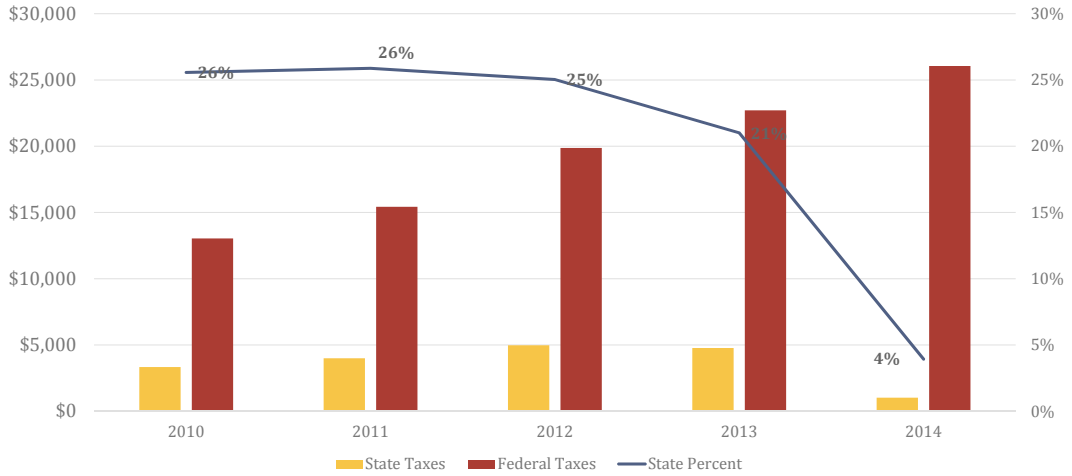
Kansas Farmers Federal Income Taxes Paid 2010 - 2014



Kansas Farmers State Income Taxes Paid 2010 - 2014

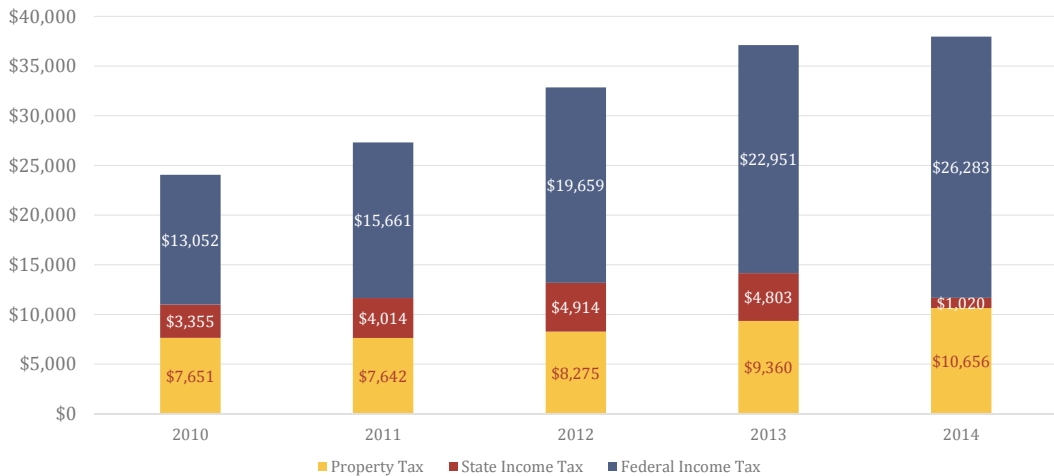


Kansas Farmers State and Federal Income Taxes Paid 2010 - 2014



349 Farms

Kansas Farmers Taxes Paid 2010 - 2014



325 Farms

Kansas Personal Sales Tax Computation

- Used the approach of Featherstone et. al. (1995)
- Personal sales tax on food, household operation, upkeep, repairs, furniture, recreation, clothing, gifts, and auto expense
- Data from the KFMA State Summary for Family Living
- Used Kansas sales tax rates

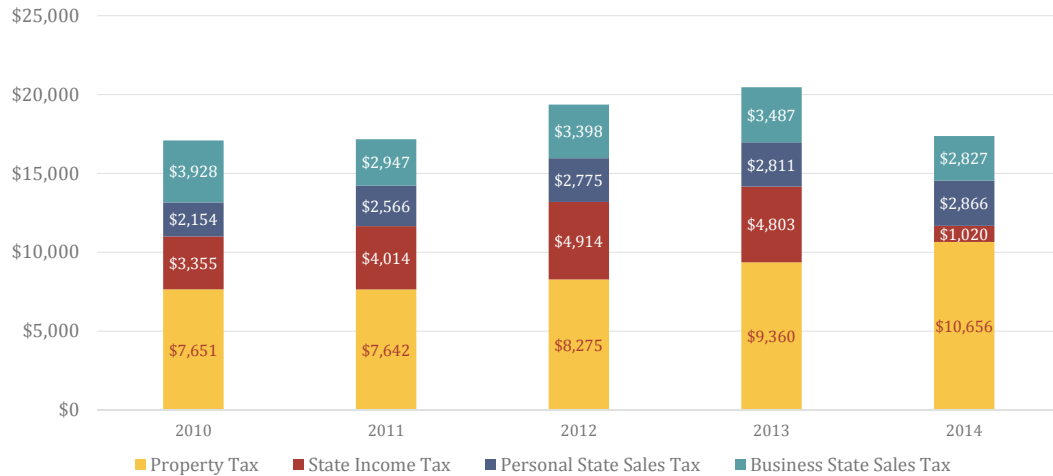
Date Change	Rate
7/1/02	5.30%
7/1/10	6.30%
7/1/13	6.15%
7/1/15	6.50%

Kansas Business Sales Tax Computation

- Used the approach of Featherstone et. al. (1995)
- Business sales tax on motor vehicle purchases, auto expense, and 10% of repairs, tools, and supplies expense
- Used Kansas sales tax rates

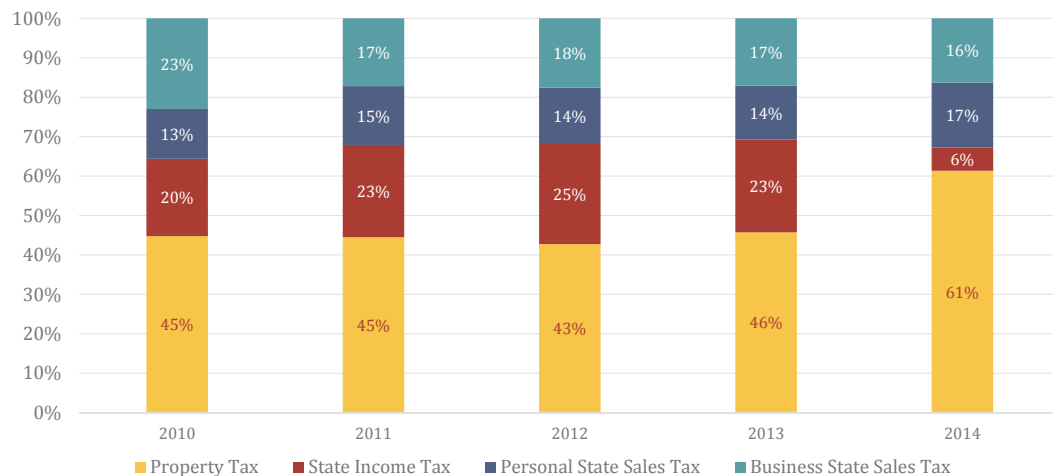
Date Change	Rate
7/1/02	5.30%
7/1/10	6.30%
7/1/13	6.15%
7/1/15	6.50%

Kansas Farmers State Taxes Paid 2010 - 2014



325 Farms

Kansas Farmers State Taxes Paid Percentage Basis 2010 - 2014



325 Farms

Senate Bill 178

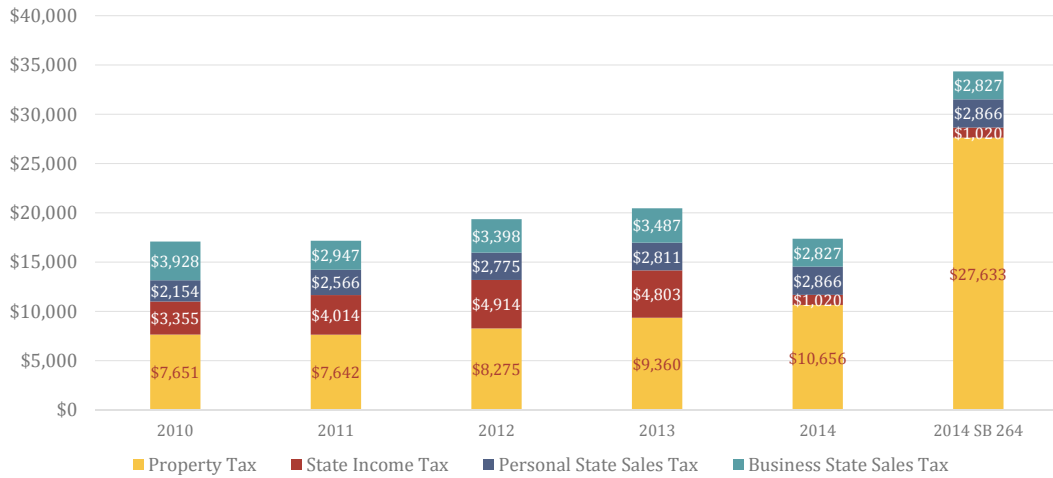
Change the Capitalization rate, move to a five year average, and use "cash rent"

Issue under Senate Bill 178

- The capitalization rate would fall from 14.72% after adding on the county tax to 5.03%
 - This would increase the tax values by a factor of 2.93
- 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 five year average
- Land tax value would increase from \$190 to \$680 or 3.58 times
- Real estate taxes would increase roughly \$16,977 per farm

Year	Federal Land Bank Interest Rate	"Cash Rent"
2009	5.77%	\$25.69
2010	5.23%	\$29.79
2011	4.97%	\$33.70
2012	4.97%	\$38.77
2013	4.19%	\$42.93
Average	5.03%	\$34.18
Current Method	14.72%	\$27.96

Kansas Farmers State Taxes Paid 2010 - 2014



325 Farms

Senate Bill 264

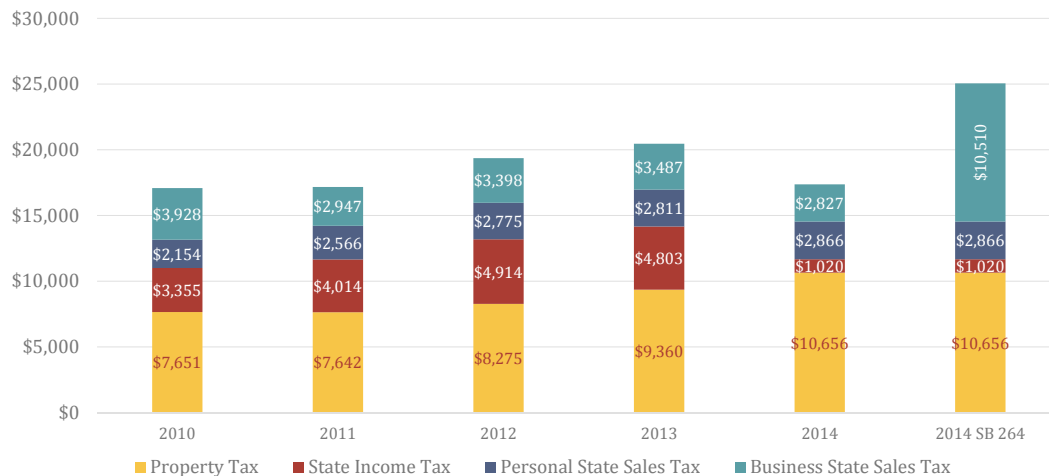
Repeal of sales tax exemption for farm machinery and equipment

Kansas Business Sales Tax Computation

- Business sales tax on machinery repairs, building repairs, auto expense, repairs, tools, and supplies expense, motor vehicle purchases, and machinery and equipment purchases
- Used Kansas sales tax rates
- Assumes sales across state lines would be captured
- Sales taxes would increase an average of \$7,683 per farm

Date Change	Rate
7/1/02	5.30%
7/1/10	6.30%
7/1/13	6.15%
7/1/15	6.50%

Kansas Farmers State Taxes Paid 2010 - 2014



325 Farms



Senate Bill 302

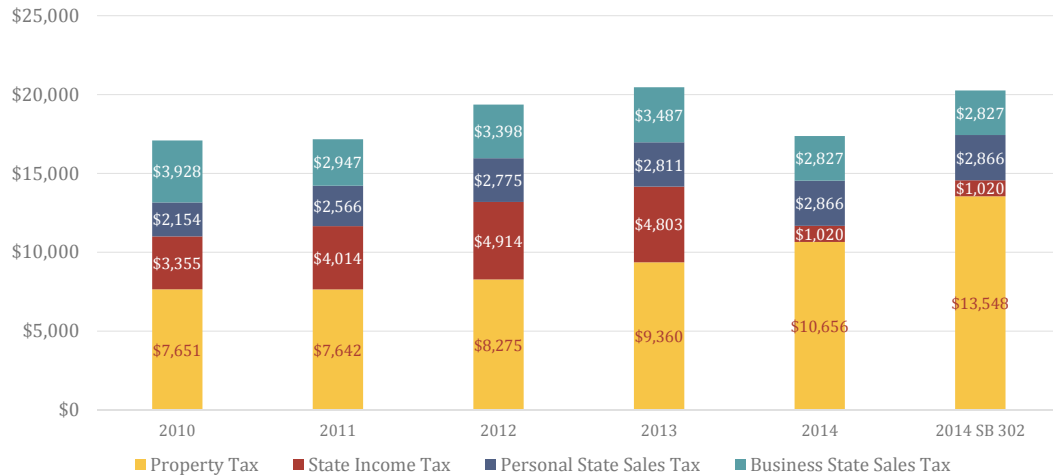
\$3 Excise tax per acre



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

Kansas Farmers State Taxes Paid 2010 - 2014



325 Farms

Summary

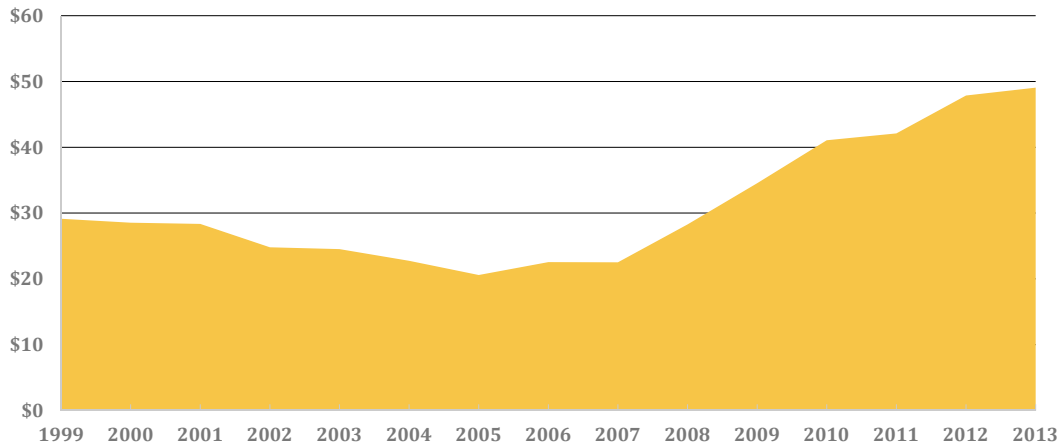
- A sample of Kansas Farm Management farmers paid an estimated \$17,369 in Kansas tax during 2014
 - Down from \$20,461 in 2013
- Under a change in the capitalization rate and the time frame for landlord return (SB 178), it is estimated that the Kansas tax paid in 2014 would have been \$34,346
- Under a repeal of the state sales tax on Machinery and Equipment purchases (SB 264), it is estimated that the Kansas tax paid in 2014 would have been \$25,052
- Under a \$3 per acre excise tax (SB 302), it is estimated that the Kansas tax paid in 2014 would have been \$20,261

Agricultural Property Tax Implications

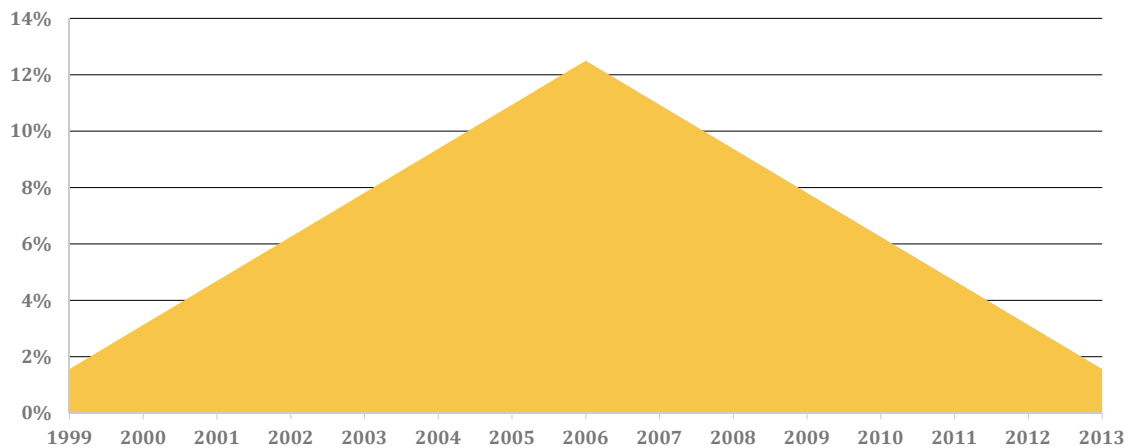
Property Tax Computation

- 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

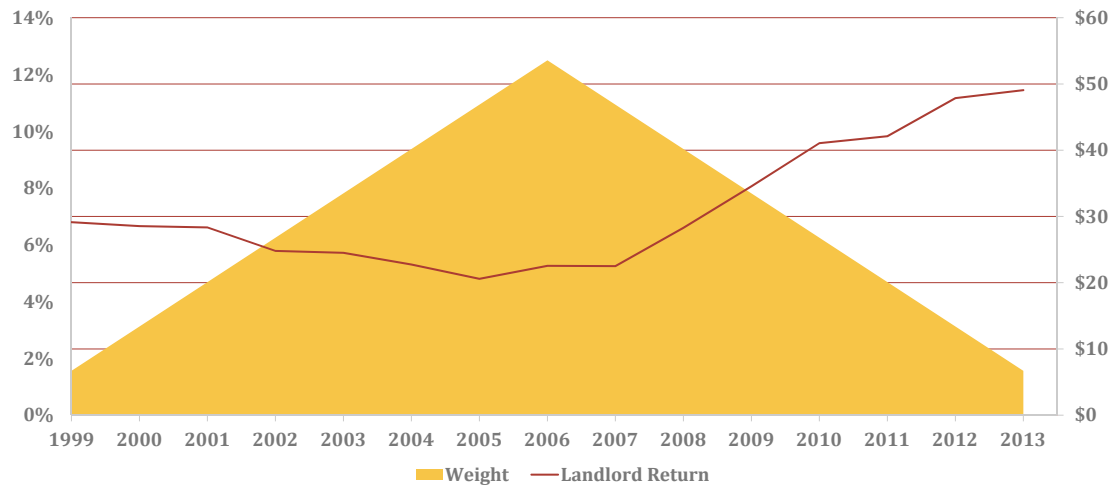
Non-irrigated Single Year Landlord Return for Barton County (Central)



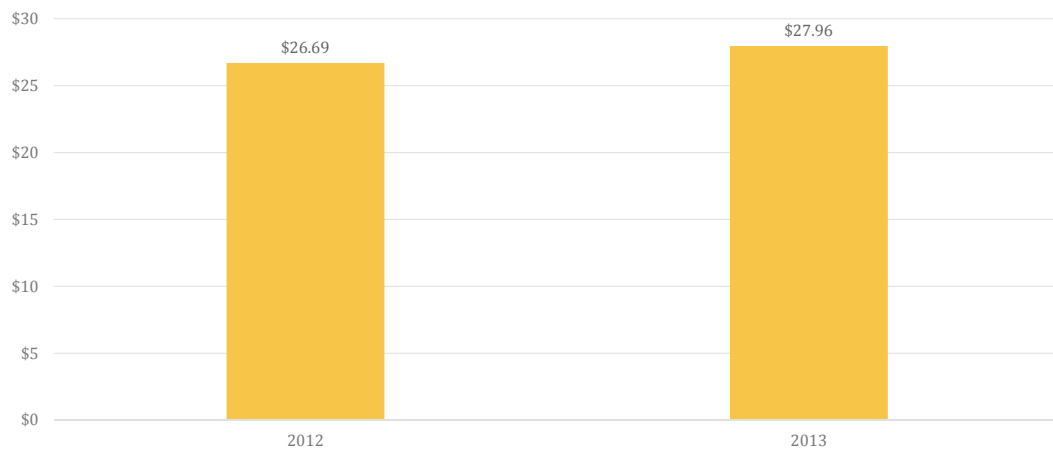
Property Tax Computation Process Eight Year Average of an Eight Year Average



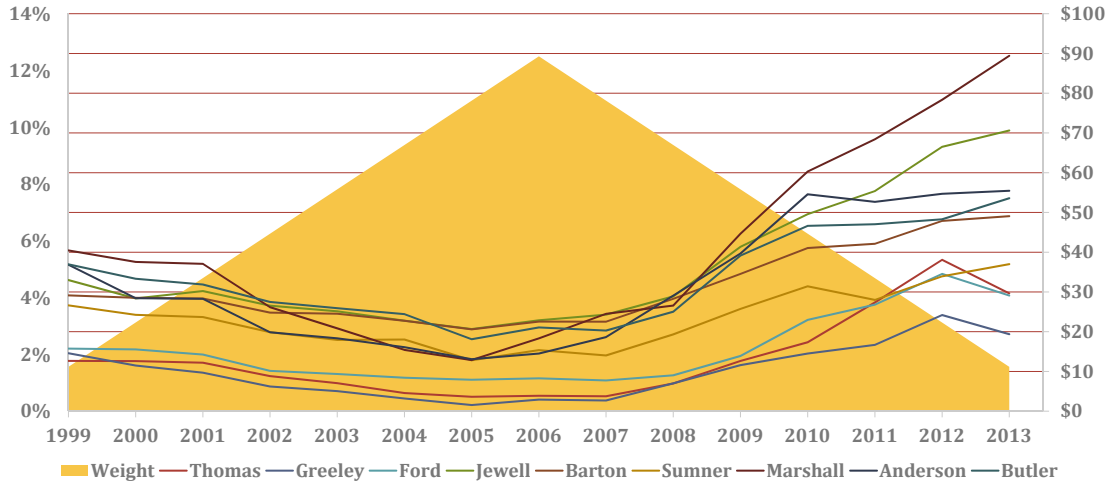
Non-irrigated Computation Process for Barton County



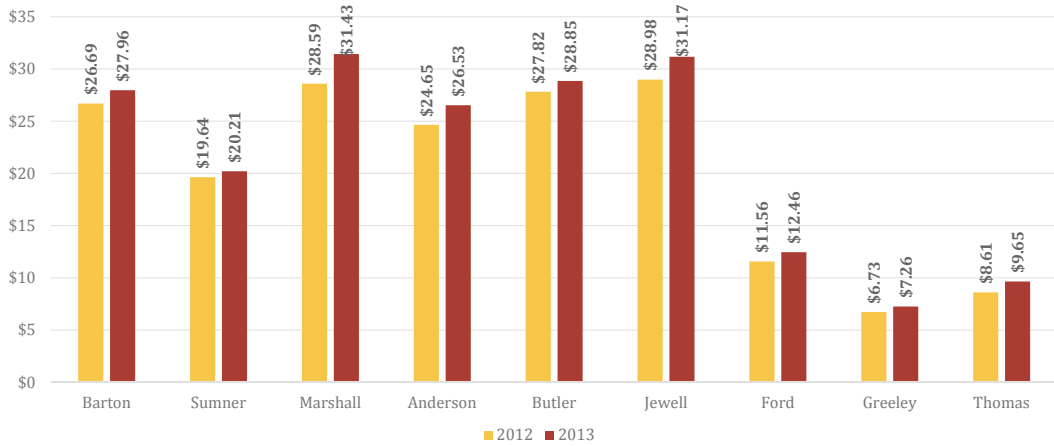
Impact of Moving Forward One Year for Barton County



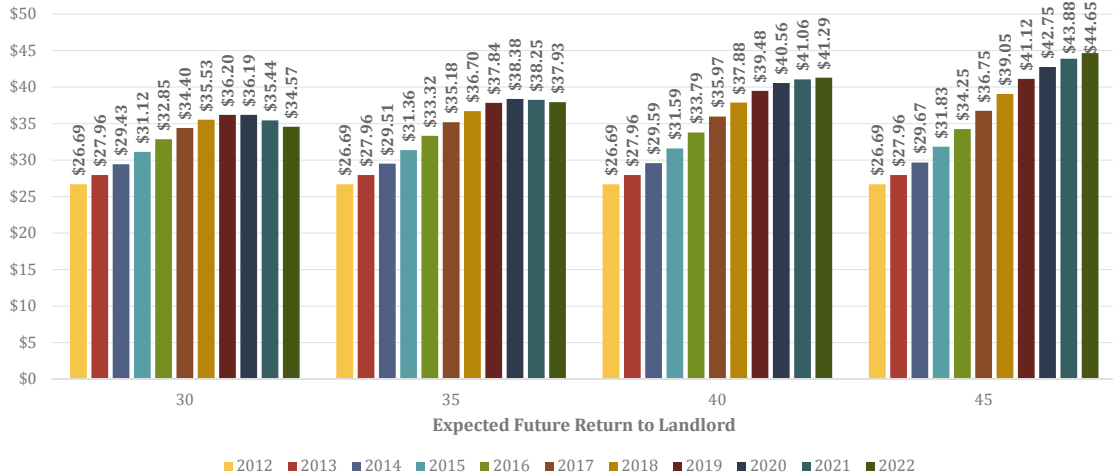
Non-irrigated Computation Process for Kansas



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



Impact of Moving Forward In Barton County Kansas

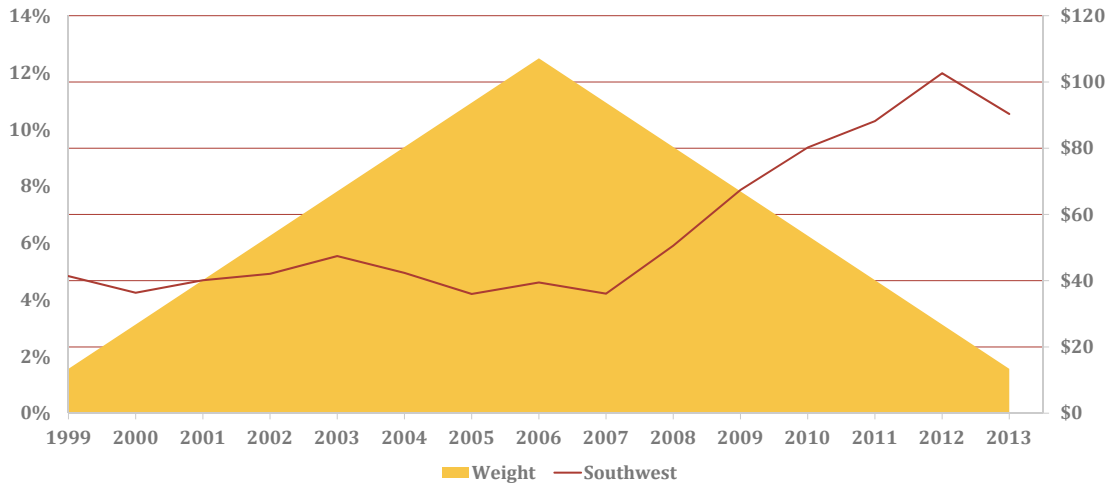


Turning Point of Landlord Returns

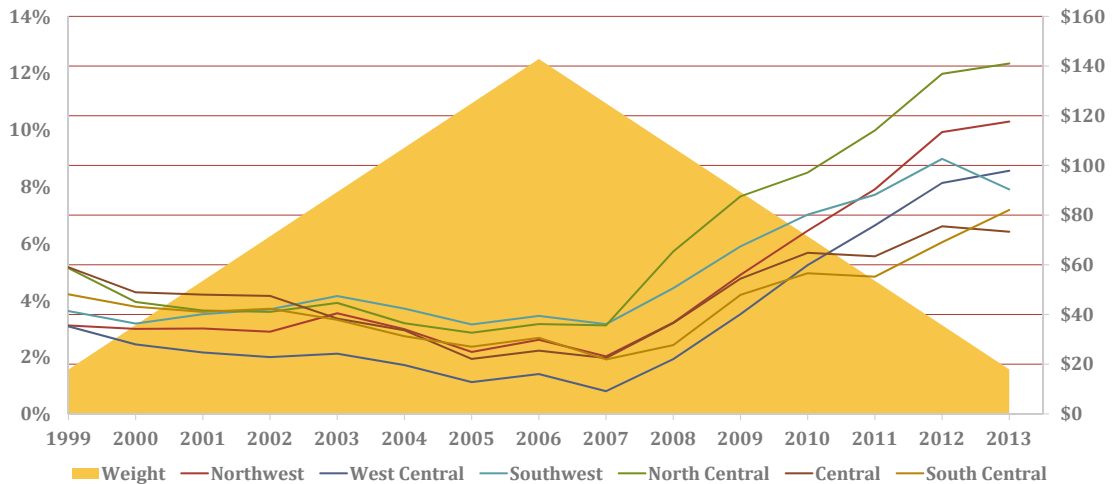
- How long will landlord returns increase?
- How much will they have increased by then?
- All based on future assumption of landlord returns
 - Assuming a constant return for 2014 and after

	Turning Point	% Increase from 2013
\$0	2016	7%
\$10	2017	12%
\$20	2018	19%
\$25	2019	24%
\$30	2019	29%
\$35	2020	37%
\$40	2022	48%
\$45	2024	62%

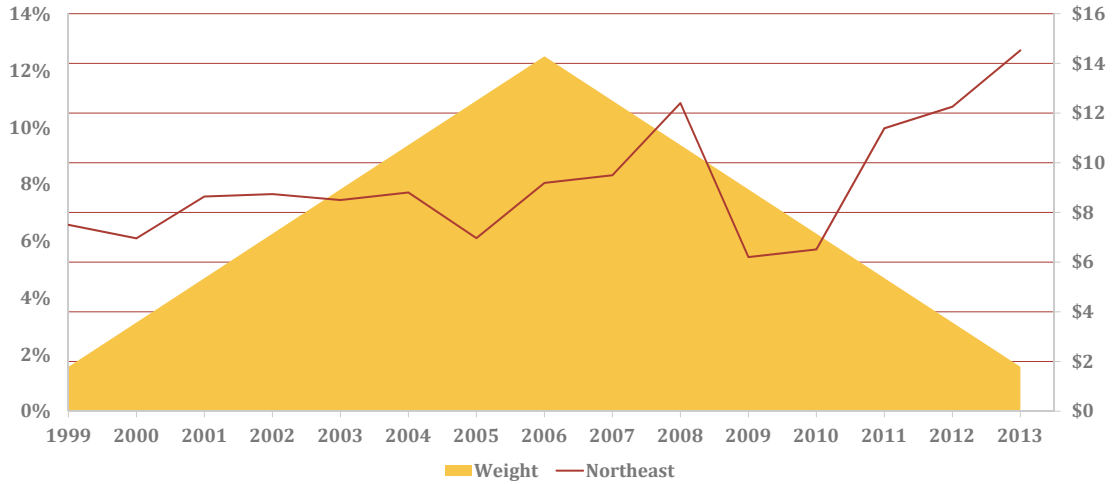
Irrigated Computation Process for Southwest Kansas



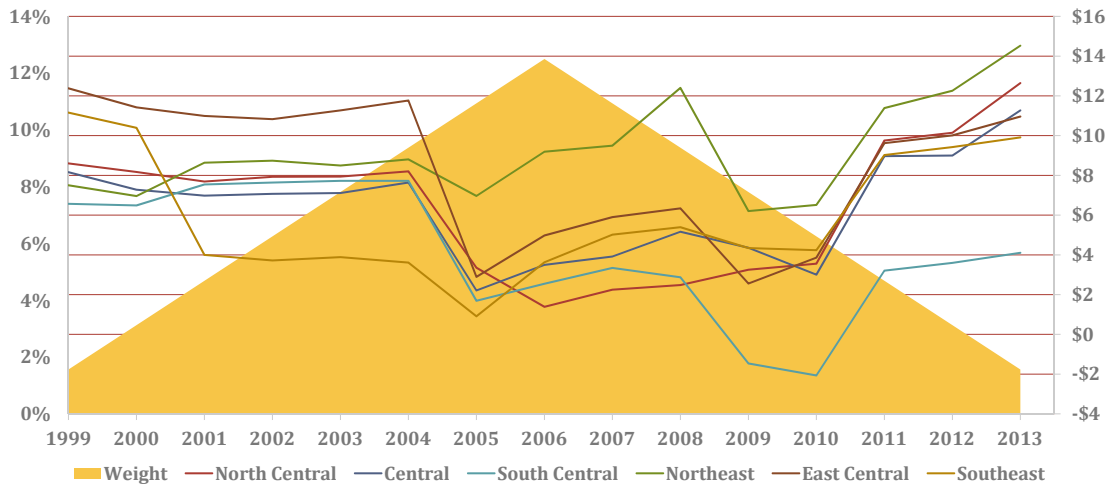
Irrigated Computation Process for Kansas



Native Pasture Computation Process for Northeast Kansas



Native Pasture Computation Process for Kansas





Summary

- Kansas real estate tax values on non-irrigated land are likely to increase for the next 6 years
 - Any scenario that this would not occur would be dire for Kansas farmers as the return to the landlord would need to fall below \$20 per acre in Barton county for this to occur
- Kansas real estate taxes on irrigated land are likely to increase for the next 6 years
 - Any scenario that this would not occur would be dire for Kansas farmers as the return to the landlord would need to drop substantially for this to occur
- Kansas real estate taxes on pasture land are likely to be fairly stable over the next few years