

The Hidden Cost of Farming: The Rising Burden of Business Personal Property Tax

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Overview

While farmland values often capture headlines in the agriculture sector, a more subtle yet relentless source of financial pressure for farmers and ranchers is property tax on business assets. Unlike taxes on real estate (land and structures), this levy targets the tangible personal property essential to the operation of the farming operations, primarily machinery, equipment, vehicles, and sometimes even stored grain or livestock.

For many farm businesses, this tax has become a significant and highly visible expense, threatening liquidity, discouraging investment, and creating a disproportionate burden when compared to other industries.

Personal property tax (PPT) on business assets is typically administered at the local level (county or municipality). The issue facing farmers is rooted in *how* these assets are valued and taxed:

How can the problem be addressed? That's the focus of today's post.

The Problem: Taxing the Tools of Production

Modern farming is intensely capital-intensive. A single combine can cost hundreds of thousands of dollars, and the overall machinery fleet - tractors, planters, sprayers, trucks, and specialized equipment - represents a multi-million-dollar investment for even a mid-sized operation. The taxable value of these assets is often based on the original acquisition cost or a rigid depreciation schedule set by the state, rather than true market value. Because farm equipment retains its value much better than typical commercial equipment (due to durability, high demand, and short supply), the assessed value can remain high for many years.

Unlike land, which can generate rental or crop income, machinery is purely a tool of production. Taxing it effectively taxes the farmer's ability to generate revenue, creating a substantial cost burden regardless of the farm's profitability in a given year. In years of low commodity prices or severe weather events, this tax becomes particularly onerous.

On a broader, macroeconomic scale, the tax on operating assets discourages farmers from upgrading to newer, more efficient, and often safer equipment, as an upgrade immediately translates into a significantly higher annual tax bill. This slows technological adoption, which is vital for global competitiveness and environmental sustainability.



Approaches for State-Level Relief

Since the tax structure is primarily dictated by state statute, legislative reform is the key to providing relief. States can employ several strategies to alleviate the burden of PPT on agricultural assets:

Direct exemptions for farm machinery and equipment. The most impactful approach is to exempt agricultural machinery and equipment from the personal property tax entirely, recognizing these assets as essential inputs to food production, similar to seed or fertilizer. The mechanism would be for a state legislature to enact legislation that removes qualifying farm equipment from the list of taxable business personal property.

Note: Relatedly, many states exempt farm assets used directly in the production of crops and livestock from sales tax. For example, Illinois has provided a significant exemption for new and used farm machinery and equipment used primarily in production agriculture. A farmer may file Form ST-587 to claim a sales tax exemption for certain machinery and equipment used in agriculture. This doesn't include buildings, real estate and vehicles like trucks, but does include farrowing crates, stalls, fence panels, flooring with a waste disposal system, precision farming technology, soil testing equipment, computers, monitors, software and GPS mapping.

Lowering the assessment ratio or cap. Instead of full exemption, states can take action to dramatically reduce the taxable value of agricultural assets, by requiring a lower assessment ratio (the percentage of market value that is taxable) for farm equipment compared to other business personal property, or introduce a maximum assessed value cap. For example, Connecticut allows municipalities to exempt certain amounts of farm machinery and equipment from local property tax, up to a specified cap, subject to the farmer meeting certain gross sales or expense requirements. This provides targeted relief based on the size of the farming business. Under the Connecticut approach, farmers may have up to \$100,000 in the assessed value of farm equipment and machinery exempt from property taxes. An additional \$100,000 can be exempt for machinery, and up to \$100,000 per farm building used exclusively in farming may also be exempt if the local municipality votes to approve. To qualify, applicants must derive at least \$15,000 in gross sales or demonstrate \$15,000 in expenses on the farm.

Note: Retail sales of tangible personal property used exclusively in agricultural production are exempt from sales and use taxes in Connecticut if the purchaser qualifies for and has been issued a Farmer Tax Exemption Permit. Any person engaged in agricultural production as a trade or business is eligible for an exemption permit, but they must apply with the Department of Revenue by filing Form REG 8.

Accelerated depreciation schedules. If the tax cannot be eliminated, the valuation should accurately reflect the asset's depreciated value. In this regard, states can adopt depreciation schedules that are more aggressive than standard accounting methods or that better reflect the real-world lifespan and replacement cycle of farm technology. This approach rapidly reduces the taxable basis of the equipment, providing the most significant tax savings in the years immediately following the purchase, which helps farmers recoup their capital investment faster.



Tax credits or rebates. A more complex, but revenue-neutral, approach is to offer refundable tax credits.

- **Mechanism:** Farmers pay the property tax upfront, but then claim a state income tax credit or rebate for a portion of the tax paid on qualifying machinery.
- **Benefit:** This provides a direct financial offset to the farmer while keeping the assessed value base intact for local taxing authorities - though it shifts the cost burden from local government to the state general fund.

Exemption for specialized/advanced technology. States can use tax policy to specifically encourage the adoption of high-tech farming methods that promote efficiency and conservation. One approach would be to provide exemptions specifically for assets like GPS-guided steering systems, variable rate technology (VRT) planters/sprayers, drones used for field scouting, or renewable energy equipment (like solar panels) used for farm operations. This links tax relief to goals of sustainability and precision agriculture.

The Political and Financial Trade-Offs

While these relief measures are highly popular with the agricultural community, they face significant political hurdles. Property tax is the primary funding mechanism for local services, most notably public schools. Exempting or reducing the tax base for farm assets means local governments must either raise the tax rate on remaining property classes (like residential or commercial real estate) or reduce services. To prevent abuse, any exemption requires a rigorous definition of what constitutes qualifying agricultural production. Unfortunately, this can complicate compliance for farmers and administration for assessors.

Observation: Ultimately, the debate requires states to balance the need to fund critical local services with the imperative to maintain a financially viable and competitive agricultural sector. Addressing the burden of taxing the tools of production is a crucial step in safeguarding the future of family farms.

Conclusion

The burden of PPT on agricultural machinery represents a critical, often hidden, obstacle to the financial health and technological advancement of the farming sector. By taxing the tools of production, the tax can strain liquidity, particularly during challenging years, and can discourage farmers from upgrading equipment.

State legislatures hold the key to easing this pressure through strategic reforms. Whether by implementing a full exemption for essential farm machinery, dramatically lowering assessment ratios and introducing caps, or adopting accelerated depreciation schedules to reflect real-world asset value, the goal remains the same: to reduce the cost of operating a farm business.

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