



CENTER *for* RURAL AFFAIRS

GROWING TAXES ON NEBRASKA FARMS

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INTRODUCTION

The need for property tax relief in Nebraska has been well documented. In 2017, a coordinated effort to bring income tax reductions back into the Nebraska tax policy conversation gained steam. Also in consideration is a projected budget shortfall of nearly \$900 million.

In this environment, an additional income tax cut would effectively reduce state aid for schools and other local governments. This will shift the burden for these entities to local property taxpayers. Further reductions in state income tax receipts in the future would result in even more pressure to shift costs to local political subdivisions.

The effects of this shift are not felt uniformly across the state. Between 2005 and 2014, income tax and total property tax have grown at similar rates. However, property taxes on agricultural land have grown twice as fast during the same time period and now bear a significantly larger percentage of the overall property tax burden. In counties where more than half of all property taxes are paid by agricultural property taxpayers,

the amount paid by property taxpayers was up to six times higher than the amount paid in income taxes.¹

This paper examines the growing shift of Nebraska's tax burden onto agricultural property taxpayers and how this shift impacts counties in different ways. Larger urban counties with diversified economies were able to keep income and property taxes relatively balanced. However, smaller rural counties that relied primarily on agriculture experienced a dramatic shift in the tax burden toward agricultural land.

To capture these different local tax burdens and the different local effects of state tax policy, 13 counties of varying sizes from different regions of the state have been identified. The selected counties are Buffalo, Custer, Dawson, Hall, Hamilton, Madison, Merrick, Nance, Polk, Scotts Bluff, Seward, Stanton and York. The analysis relies on statistics on individual income tax liability and property assessment published by the Nebraska De-

¹ This growth is due in part to a rapid increase in farmland values during this period. In 2005, the average value of farmland was \$924 per acre. In 2014, this grew to \$3,315.

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FIGURE 1: TAX GROWTH RATE

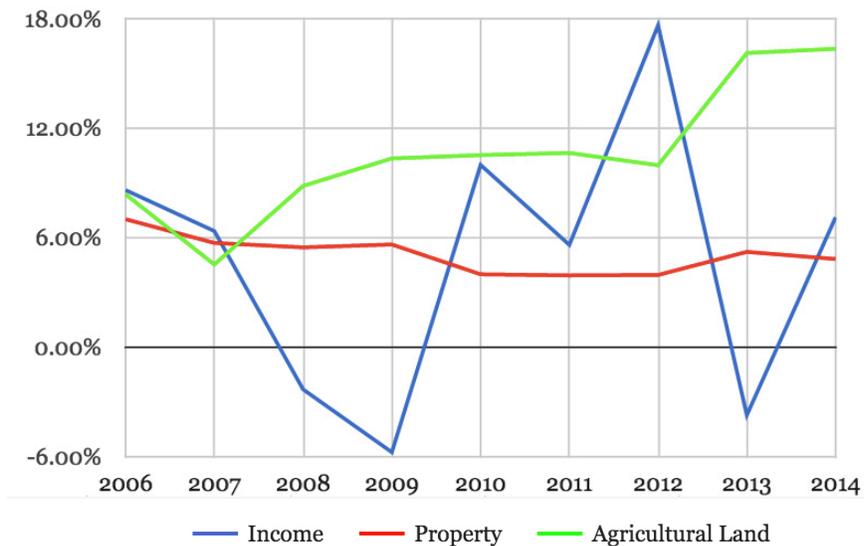
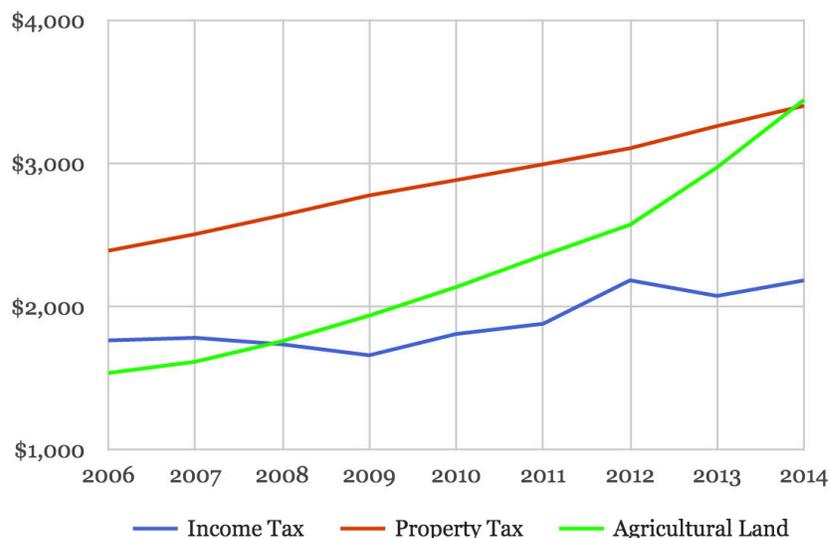


FIGURE 2: TAX PER PAYER



partment of Revenue and focuses on a 10-year period from 2005 to 2014.

Because the focus of this paper is on the relative balance of income and property taxes, dollar amounts are shown in nominal dollars. While some of the increases in tax collections over time is the result of inflation, no reliable measure exists to adjust these amounts on a county-by-county basis. The consumer price index (CPI) does not measure the expenditures of people in rural,

non-metropolitan areas or farm families. For reference, inflation as measured by the CPI-Midwest increased 19.65 percent from 2005 to 2014.

STATEWIDE TRENDS

Despite economic trouble across the country, Nebraska’s gross domestic product (GDP) grew between 2005 and 2014 at an average annual rate of 4.74 percent. Annual GDP growth ranges from 2.04 per-

cent to 8.35 percent. Nebraska’s population also increased during this time period from 1,706,976 to 1,855,617 people, a total increase of 13.8 percent.

From 2005 to 2014, individual income tax collections and property tax collections in Nebraska grew at a similar rate of an average of approximately 5 percent each year. Individual income tax collections increased at an average of 4.84 percent per year but varied significantly from -5.75 percent to 17.64 percent. On average, property tax collections increased by 5.09 percent each year, but within a narrower range of 3.93 percent to 7.01 percent. The largest components of total property tax include taxes on agricultural land, residential property, and commercial, industrial, and mineral property. Property tax collections on agricultural land grew much faster than total property tax at an average 10.63 percent per year, with annual increases ranging from 4.53 percent to 16.35 percent. See figure one.

During this time period, individual income tax collections grew from \$1.414 billion, or \$1,751 per return, to \$2.119 billion, or \$2,182 per return. Also from 2005 to 2014, total property tax collections increased from

\$2.281 billion to \$3.565 billion. In 2006, total property tax collections were \$2.442 billion and property tax collections on agricultural land were \$455 million. Collections averaged \$2,389 for all property tax records and \$1,534 for agricultural property records.²

By 2014, the average of all property tax records had grown to \$3,403 and the average of agricultural property records had increased to \$3,444. See figure two.³ From 2005 to 2014, the share of property tax levied on agricultural land had increased from 18.41 percent of all property tax collected to 29.14 percent.

2 “Property tax records” includes all taxable parcels of land and excludes property exempt from taxation pursuant to Neb. Rev. Stat. § 77-202. The Department of Revenue began reporting agricultural records separately starting with its 2006 Annual Report.

3 “Tax per payer” compares individual income tax paid per return to property taxes paid per taxable property record. Because agricultural returns were not separately reported in 2005, this year is omitted from figure two.

FIGURE 3: NANCE COUNTY TAX PER PAYER

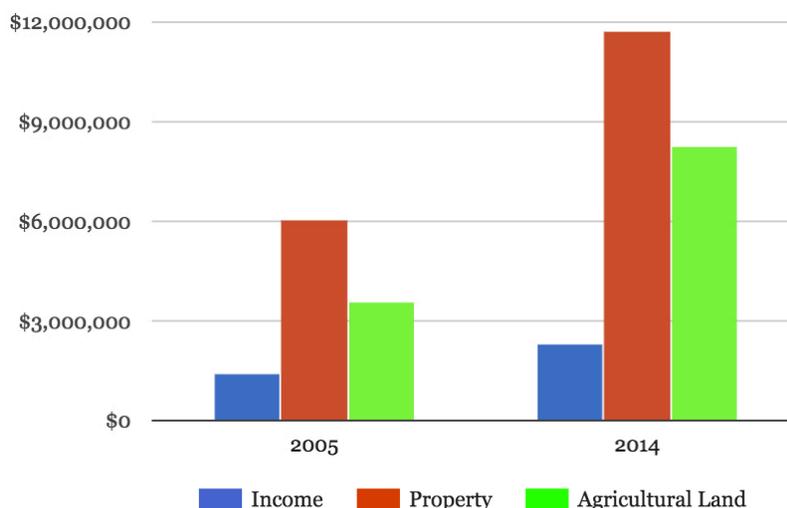
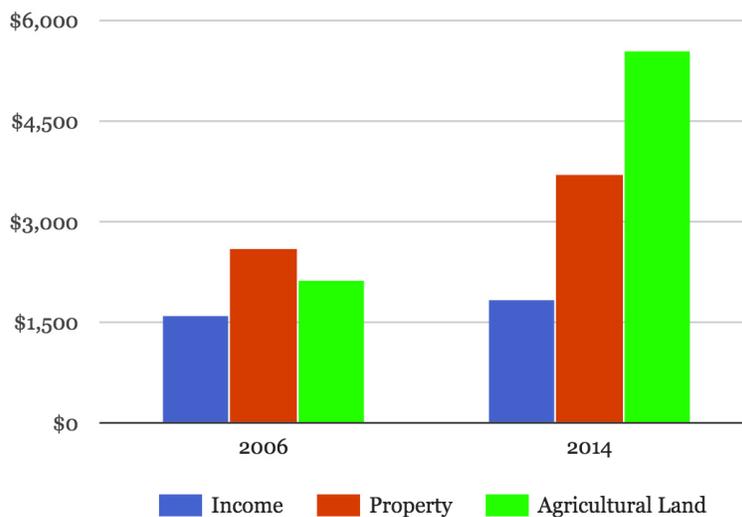


FIGURE 4: HALL COUNTY TAX PER PAYER



POPULATION

Nebraska counties vary widely in size, population, and income. As a result, tax policy and economic growth do not affect counties in the same ways.

Nance County

Nance County had 3,735 residents in 2010 and is classified as a rural county.

In Nance County, income tax collections increased 60.05 percent from 2005 to 2014. During this same time period, total property tax collections increased 93.13 percent and property tax collections on agricultural land increased 129.44 percent.

In 2006, the average income tax per return for Nance County was \$982 and the average property tax paid per record was \$1,543. The average for agricultural land was actually less than all property at \$1,537. By 2015, the average income tax was up to \$1,453, however, property tax paid per record had grown to \$2,850.

During this same time period, average property tax collection per agricultural record had grown to \$3,462 and the share of property taxes levied on agricultural land had grown from 57.70 percent to 70.59 percent. See figure three.

Hall County

Hall County is not far from Nance County, but had 58,607 residents in 2010, approximately 55,000 more than Nance County. Hall County is classified as an urban county and is home to the core of the Grand Island metropolitan area.

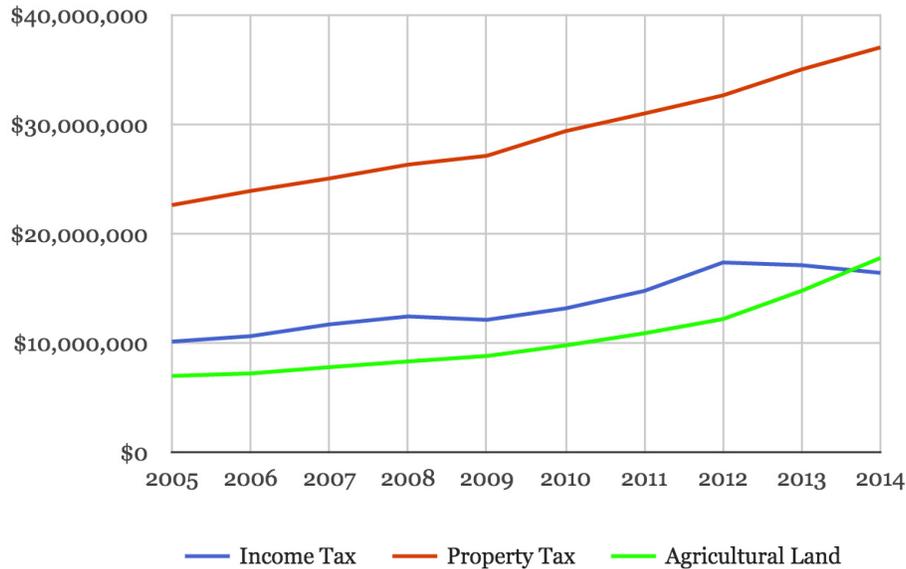
Taxes are generally higher in Hall County than in Nance County, however, the gap is closing. From 2015 to 2014, individual income tax collections increased 45.15 percent and total property tax collections increased 57.80 percent. However, property taxes on agricultural land grew much faster and increased 180.14 percent from 2005 to 2014, and agricultural land's share of property taxes increased from 11.73 percent to 20.82 percent.

In Hall County, the average income tax bill increased less than 15 percent between 2006 and 2014. During this same time period, the average property tax bill increased 42.77 percent and the average property tax bill on agricultural land increased 159.34 percent. See figure four.

Seward County

Seward County is part of the Lincoln metropolitan area and is in the same region of Nebraska as Hall and Nance counties. Seward

FIGURE 5: SEWARD COUNTY TAXES



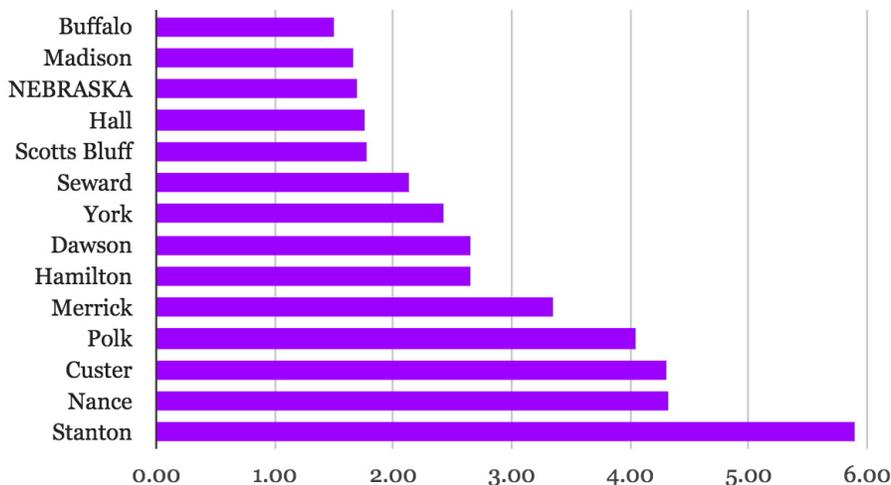
County ranked between Hall and Nance counties in population in 2014 with 16,750 residents.

From 2005 to 2014, income tax and total property tax collections increased at approximately the same rate in Seward County as Hall and Nance counties. As a result, Seward County taxpayers consistently paid twice as much in total property taxes compared to income tax.

However, during the same time period, property taxes levied on agricultural land increased twice as fast as income taxes and total property taxes. Agricultural property taxes grew from less than a third of total property taxes in 2005 to nearly half of total property taxes in 2014.

The amount of property taxes collected on agricultural land alone exceeded the amount of income tax collected in 2014. See figure five.

FIGURE 6: AVERAGE PROPERTY TAX TO INCOME TAX RATIO (2005-2014)



PROPERTY/INCOME TAX BALANCE

Property and income tax are two legs of the metaphorical three-legged stool of taxes in Nebraska. However, from 2005 to 2014, property tax collections accounted for an average of approximately 1.7 times the revenue as individual income tax collections in Nebraska. More populous counties tended to be closer to balance, but some smaller counties were significantly more imbalanced.

Of the counties in the sample, Madison and Buffalo counties were relatively closer to balancing, with an average of approximately 1.51 and 1.68 times more property tax than individual income tax collected, respectively. The ratios for Hall and Scotts Bluff counties were slightly higher than the state average at 1.77 and 1.79, respectively. These are the four largest counties in the sample, all with more than 34,000 residents. See figure six.

FIGURE 7: NEBRASKA TOTAL PROPERTY TAX TO INCOME TAX RATIO

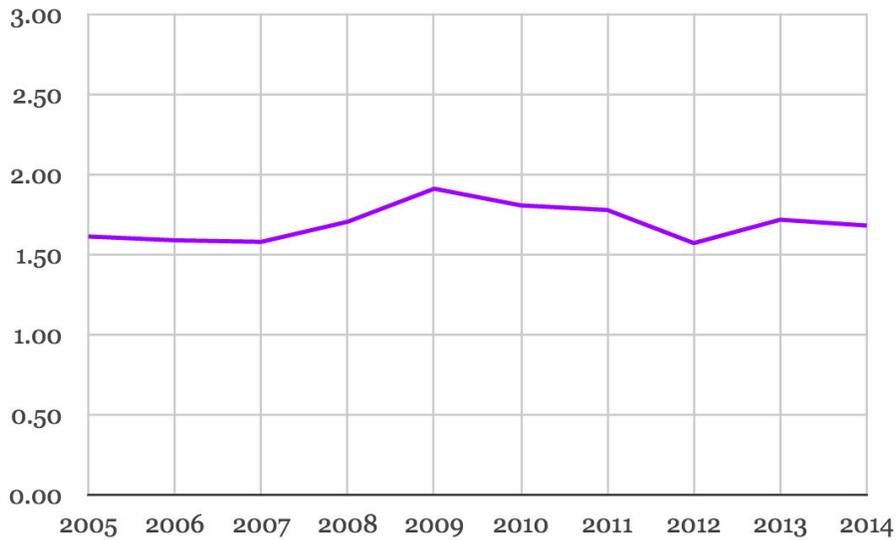


FIGURE 8: PROPERTY TAX TO INCOME TAX RATIO IN COUNTIES THAT LEVY MORE THAN 50 PERCENT OF PROPERTY TAX ON AGRICULTURAL LAND

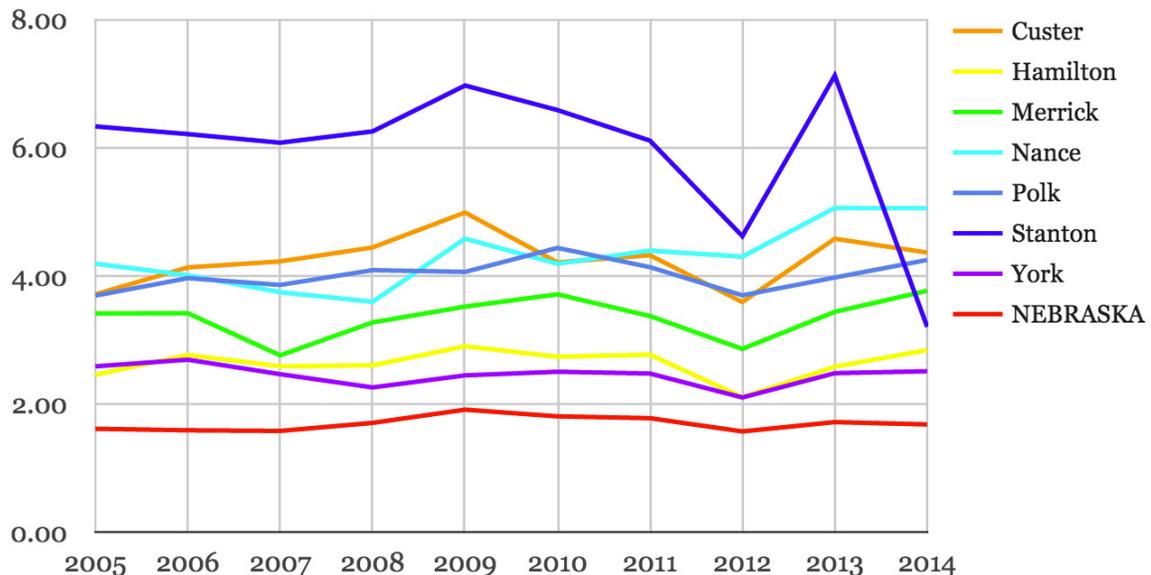
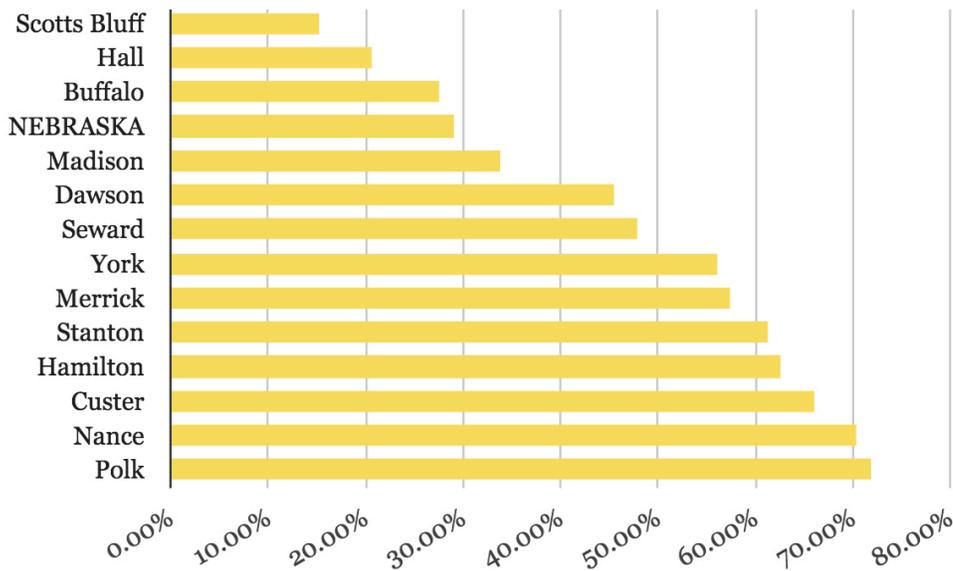


FIGURE 9: PERCENT OF TOTAL PROPERTY TAX PAID ON AGRICULTURAL LAND (2014)



Counties in the sample with fewer than 10,000 residents saw a much higher imbalance. Stanton County, with 6,129 residents, took in 5.9 times more revenue from property tax than from income tax between 2005 and 2014. The average ratios for Custer and Nance counties were more than 4.3 and Polk County was more than 4.0.

Considering the significant differences in the entities that levy income tax and property taxes and how taxes are calculated, the ratio between total property tax and income tax has stayed remarkably stable. Across Nebraska, total property taxes to income taxes ranged from between 1.57 to 1.91 from 2005 to 2014. While the ratios significantly varied across counties in the sample, there were no clear trends over time. See figure seven.

The one county in the sample worth additional investigation may be Stanton County. From 2005 until 2011, the ratio was relatively stable at an average of 6.37. During the next three years, property tax continued to grow at a similar rate but income tax collection varied significantly. This seems to reveal more about how smaller counties can be impacted by unique events than a larger statement about relative tax burdens.

AGRICULTURAL LAND'S SHARE OF TOTAL PROPERTY TAX

Statewide, the share of total property tax paid on agricultural land increased from 18.41 percent in 2005 to 29.14 percent in 2014. In Polk County, 72.05 percent of all property tax was levied on agricultural land in 2014. Nance County was not far behind with 70.59 percent of the property tax burden falling on agricultural land that year. Custer, Hamilton, Merrick, Nance, Polk, Stanton and York counties all levied more than half of their property tax on agricultural land. See figure eight.

While the ratio of total property tax to individual income tax remained relatively stable from 2005 to 2014, this was accomplished primarily as a result of dramatically increasing property taxes on agricultural land. The ratio of property tax paid on agricultural land to income tax demonstrates both the wide geographic variation in tax burden and the tax burden shifting toward agricultural land. Statewide, this ratio grew from 0.30 in 2005 to 0.49 in 2014. Each of the sample counties showed a shift in ratio toward more property taxes on agricultural land. See figure nine.

While the shift in agricultural land property tax to income tax ratio was seen across the sample counties, the size of the ratio varied significantly. Buffalo, Hall and Scotts Bluff counties consistently collected a higher relative proportion of income taxes than the state average. Madison County closely tracked the state average.

In counties similar to Custer, Nance, Polk and Stanton, two to three times as much property tax on agricultural land was collected than total income tax. The increase in property taxes on agricultural land resulted in more property taxes on agricultural land being collected in Dawson and Seward counties than income tax by 2014.

A CLOSER LOOK: DAWSON COUNTY

Dawson County could be considered an “average” county as it is not an extreme outlier on any particular metric.

The county had 24,326 residents in 2014, with most of its population living along the I-80 corridor in the cities of Lexington, Cozad and Gothenburg. Dawson County was large enough to be Nebraska’s 13th most populous county, but small enough to be considered a rural county.

Property taxes increased consistently in Dawson County between 2005 and 2014. However, the rate of increase noticeably accelerated in 2009 and again in 2012. During this same time period, total income tax collections were more variable and actually declined in 2009, 2011 and 2013. Although income tax collection increased again in 2014, the peak of income tax collection over this period was in 2012. See figure 10.

The ratio of both total property tax and property tax on agricultural land to income tax shifted toward property taxes during this period. As a result of the variable income tax collection, both ratios bounced around from year to year. By 2014 however, both ratios had reached their highest levels since 2005. Dawson County was about double state averages. Its total property tax was 2.99 times more than income tax, and property tax on agricultural land was 1.36 more than income tax. See figure 11.

While the overall tax burden shifted toward total property taxes, the overall property tax burden shifted toward agricultural land. From 2005 to 2009, approximately 30 percent of total property tax in Dawson County was levied on agricultural land. After 2009, this percentage increased dramatically. More

FIGURE 10: DAWSON COUNTY TAX COLLECTIONS

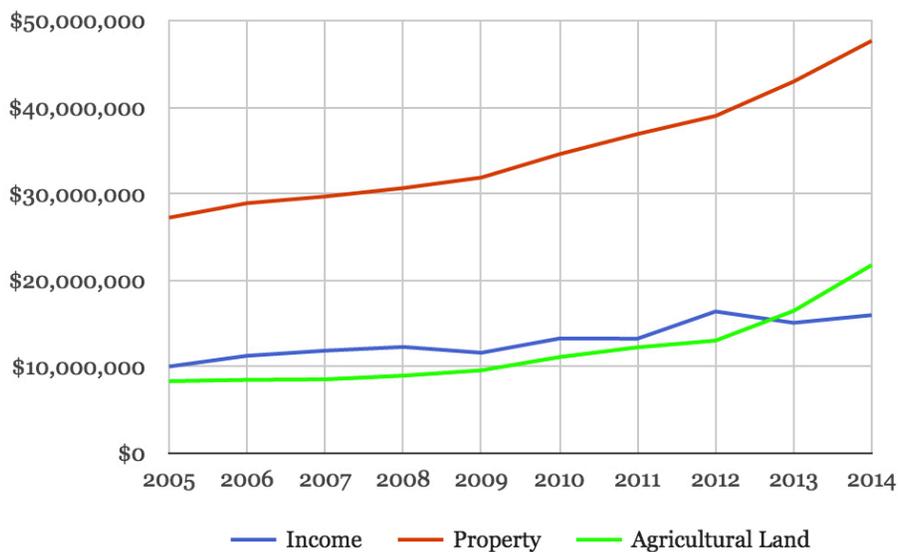
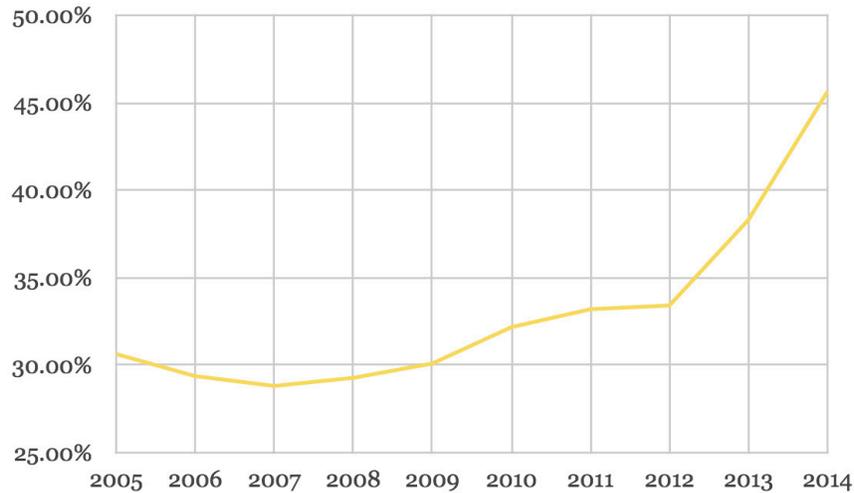


FIGURE 11: DAWSON COUNTY TAX COLLECTION RATIOS



FIGURE 12: AGRICULTURAL LAND'S SHARE OF TOTAL DAWSON COUNTY PROPERTY TAXES



than 45 percent of property tax was levied on agricultural land after 2009. See figure 12.

A randomly selected 319-acre parcel of agricultural land in north-central Dawson County, sold in January 2016, demonstrates how this shifting tax burden impacts an individual taxpayer. In 2005, the parcel was assessed at \$114,062 with a tax bill of \$1,781 at a total levy of .01561822. By 2014, the

property value had increased to \$263,215 and the tax bill had grown to \$4,286 at a levy of .01628461. For 2016, the levy had been reduced to .01529340, however, the total tax bill increased to \$5,402 because the property value had increased to \$335,225. From 2005 to 2014, this parcel's assessed value increased 130.76 percent and then grew another 27.36 percent from 2014 to 2016.

CONCLUSION

A review of the tax burdens in counties across Nebraska during the past 10 years shows a consistent shift from income tax to agricultural property taxpayers. Income taxes and total property taxes have increased during the past 10 years at the same rate as the overall Nebraska economy, but agricultural property taxes have grown twice as fast.

The Legislature's current revenue shortfall appears likely to lead to reduced state aid to local schools and political subdivisions. In counties that already rely heavily on agricultural property taxpayers, there are limited options to replace reduced state aid that helps fund local schools and critical public services.

ABOUT THE CENTER FOR RURAL AFFAIRS

Established in 1973, the Center for Rural Affairs is a private, nonprofit organization with a mission to establish strong rural communities, social and economic justice, environmental stewardship, and genuine opportunity for all while engaging people in decisions that affect the quality of their lives and the future of their communities.

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