

An Argument for Uncoupling Agricultural and Residential Property Values:

Why Iowa Should Abandon this Tax Tool Bred in the 1970's

The assessment limitation is a tax tool that prevents taxable property values statewide from increasing by more than four percent in any given year. All property classes are limited by what's commonly called the rollback, although the limitation for utility property is eight percent, rather than four. The original intent of the limitation was to prevent inflation – near 10% when the law was enacted – from causing taxable property values to skyrocket.

In addition to the four percent assessment limitation, the increases in agricultural and residential property values have been linked since the legislation was passed in the late 1970's. The law limits the percentage increase in taxable value in one class of property to the percentage increase in taxable value in the other. That means that if agricultural land value increases by only two percent, taxable residential value is limited to an increase of two percent, rather than the four percent growth otherwise permitted by law. If agricultural land value decreases, the 'allowable growth' rate for residential property value is zero. The converses of those statements are true as well. These limitations apply to statewide aggregate property values; individual properties may see a change in value above or below that of the statewide limitation.

Created to Prevent Tax Shifts

The initial reason behind linking the two classes was to prevent a shift in the tax burden from one class to the other. It was likely a quite popular idea, as farmers and homeowners each had an additional means by which their property taxes were kept in check. The core idea of 'coupling' property classes, as it is often referred to, is not all that objectionable. Preventing tax shifts is, by and large, good public policy. The current practice of coupling, however, fails to recognize the importance of non-agricultural businesses to Iowa's economy in the 21st century. Selectively coupling agricultural and residential property values promotes inequity, because in periods of declining agricultural values, residential property values are artificially suppressed and the tax burden is shifted to commercial property owners.

The concept of coupling agricultural and residential property values lost all credibility when the state decided to base agricultural property values completely on productivity. The productivity formula Iowa uses assesses agricultural land based on three main components: crop yields, crop prices and expenses. It is designed to value a farmer's land based on the income it provides him or her. When productivity declines, a farmer's income follows suit. Because property taxes are based

By: Jay Syverson

ISAC Fiscal Policy Analyst



directly on value, when productivity value declines, a farmer's tax asking follows suit. This strategy makes sense if you subscribe to the 'ability to pay' theory of taxes. A person's tax bill should reflect, to the extent possible, his or her ability to pay. So the obvious question must be asked: Is a typical homeowner's ability to pay property tax in any way affected by climate conditions, crop prices or the price of fertilizer? The answer is no. The factors upon which productivity value is based have no bearing on the value of residential property.

Improving Iowa's Business Climate

As a result of the recent projections of a drastic decline in agricultural land value – 18% statewide, up to 33% in some areas – the push to uncouple has gained urgency. During this period of declining agricultural values, the housing market continues to boom. Yet, while the market value of most residential property is steadily increasing, taxable valuations remain stagnant. In upcoming years, the residential rollback will fall below 50% for the first time, meaning that homeowners will be paying property taxes based on less than half of the actual value of their homes. If homeowners continue to be taxed at a disproportionately low rate, Iowa's businesses will be forced to bear the lion's share of the tax burden. In a period of heated competition for economic development, higher business taxes do not bode well for Iowa.

County officials should encourage the Iowa Legislature to uncouple agricultural and residential property valuations and allow market forces to determine the value of residential property. Uncoupling would not result in differential treatment within either class of property. Uncoupling would not remove the four percent assessment limitation, and residential property owners would not see a drastic increase in property taxes. Instead, uncoupling would be a valuable first step toward achieving tax equity among all classes of property and improving the business climate in our state. It would result in a simpler, more sensible, more understandable system of property taxes.