Property Taxes for Agriculture: Use-Value Assessment and Urbanization across the United States

Not everyone pays the same amount of property tax, but surprisingly, not everyone pays the same property tax rate, either. In every state, certain types of land are taxed at a different rate than other types. Agricultural land is often taxed at a significantly lower rate than land assessed for a residential or commercial purpose, especially agricultural land near cities. Proponents of this favorable tax treatment may argue that favorable tax treatment will preserve farmland or encourage food production. This type of taxation method is called “use-value assessment” (UVA). This method of property tax valuation assesses land based on its current use in agriculture rather than its full market value, and such a method can significantly reduce property taxes for farmland.

A new study for the Mercatus Center at George Mason University analyzes the spread of use-value assessment as applied to agricultural and rural lands across the 50 states and finds that while the spread of UVA was driven in part by concern over urbanization, the diffusion of UVA as a tax policy across the United States is best explained by effective political lobbying by agricultural interests.

As the agricultural interest group became smaller and more concentrated, it also became more effective at organizing and persuading state and local governments across the country to grant it preferential tax treatment, while those who subsidize it had little incentive to oppose small increases in their own taxes. A tax preference for a relatively small group that raises taxes for everyone else can be politically attractive, despite the harm imposed on the majority of taxpayers who pay more while the small group pays less.

To read the study in its entirety and learn more about its authors, John E. Anderson, Seth H. Giertz, and Shafiu N. Shimul, see “Property Taxes for Agriculture: Use-Value Assessment and Urbanization across the United States.”
SUMMARY AND KEY FINDINGS

While the spread of UVA was driven in part by urbanization, models of collective action also help explain its growth. Urbanization—the expansion of cities outward to rural land—caused urban areas to grow and created concern for slowing the conversion of agricultural land to urbanized use. However, looking at the effectiveness of collective action by agricultural interests provides new insight on how UVA was widely adopted throughout the United States.

- **Applying the model of collective action.** The benefits of the tax preference are provided to relatively few who stand to benefit a great deal (in this case, agricultural interests) and can organize legislative support effectively, while the vast majority of property owners pay a small amount more in property tax and as such, have little incentive to object to the policy.

- **Data show that agriculture decreased in size and increased in concentration.** Changes in average farm size and in agriculture’s share of state income capture the way that agricultural interests become more concentrated and therefore more politically effective in lobbying. Average farm size has increased while agriculture as a share of the overall economy has decreased. Both of these changes led to this interest group becoming smaller yet more politically effective at lobbying.

- **Agricultural interests pay less, while everyone else pays more.** As an interest group becomes smaller and more concentrated, the burden of mobilizing to convince the government to subsidize them will decrease. The costs of preferential policies are then passed on to the rest of the population, which must pay higher property taxes while the agricultural interest group pays less. These policies may also distort land prices. Land that is not converted to its highest-value use leaves less land available for those uses, which may cause the price of nearby non-agriculture land to increase. The model of collective action as applied to UVA helps explain why the preferential tax policy was able to spread across the United States over only a few decades.

CONCLUSION

Use-value assessment is a policy of granting tax preferences to a relatively small number of landowners (usually agricultural), while causing other property owners (commercial, industrial, residential, etc.) to pay more. This policy spread across the United States in large part due to the effective political lobbying of agricultural interests.

UVA distorts land use and causes inefficiency in land markets because agricultural land is taxed below its market value, thus skewing the incentives that would typically encourage property owners to allocate the land to its most efficient use. This land is then held onto because of artificially low property taxes, while other taxpayers end up paying more in taxes, helping to subsidize farmland that could instead be used in a more efficient way. For policymakers interested in reforming property taxation, it is important to understand that the effectiveness of agricultural political lobbying is a primary reason why this preferential tax policy was adopted.