



Ohio State University Fact Sheet

Community Development

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Current Agricultural Use Value Assessment in Ohio

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Land Use Series

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What Is CAUV?

Current Agricultural Use Value (CAUV) is a differential real estate tax assessment program which affords owners of farmland the opportunity to have their parcels taxed according to their value in agriculture, rather than full market value. It is the result of a referendum passed by Ohio voters in November, 1973. The Ohio General Assembly subsequently passed Senate Bill 423 in April, 1974, establishing CAUV Program by law.

Who Qualifies for CAUV?

To qualify for use value assessment, a landowner must devote the parcel "exclusively to agricultural use," as stated in Section 5713.30 of the Ohio Revised Code (ORC). By definition, this means "tracts, lots, or parcels of land totaling not less than 10 acres that...were devoted exclusively to commercial animal or poultry husbandry, aquaculture, apiculture, the production for a commercial use of field crops, tobacco, fruits, vegetables, nursery stock, ornamental trees, sod, or flowers, or the growth of timber for a noncommercial purpose, if the land on which the timber is grown is contiguous to land that is already eligible for CAUV. An owner of farmland may also qualify for CAUV if, "such land has been lying idle or fallow for up to one year and no action has occurred to such land that is either inconsistent with its return to agricultural production or converts the land devoted exclusively to agricultural use..." [ORC 5713.30(A)(4)]

Why Do We Have CAUV?

The CAUV program often inspires public debate. One side claims that differential assessment programs such as CAUV are "inefficient" because eligible land is not taxed according to its full market value, the price any willing buyer would pay a willing seller. There is also the claim that CAUV is "unfair" because, if service costs are to remain the same, it shifts the local property tax burden to residential, commercial, and industrial users of lands who are not eligible for special treatment.

Program advocates generally offer two primary arguments for a CAUV program. The first, and strongest, is that CAUV actually corrects inherent "unfairness" to farmland owners in the real estate tax system. Since Ohio farmers generally own the largest amount of land in any rural taxing district, and since local public services are funded largely through local real estate taxes, farmland owners--especially those in non-metropolitan counties--provide the bulk of the funding for local public services. Yet these farmers actually use relatively few local services. Cost of community services (COCS--see OSU Extension Fact Sheet CDFS 1260-98) studies show that farmland generates a net surplus because of its modest demand for local public services. Farmland essentially subsidizes residences, which demand more in public services than they generate in tax revenue, even after CAUV tax savings are factored into the study. Thus, they would argue, CAUV evens out a real estate tax "playing field" that is tilted against farmland owners.

Farmland and/or open space preservation is another rationale often cited for the CAUV program. Though there is no hard evidence that CAUV actually has preserved farmland, it is clear that reduced land taxes have helped prevent many farmers from being "pushed" out of business due to increasingly higher operating cost. Despite favorable tax treatment, farmers generally pay a higher portion of their income in taxes than do other sectors. However, farmers still are being "pulled" off their farms by the prices they receive for selling their land to developers, whose offers are multiples of the taxes saved from being in the CAUV program and which make the penalty payment of the three previous years' tax savings a weak deterrent. A continuation of the farmland preservation argument might cite long-term food security or such natural resource services as protection of wildlife habitat, groundwater recharge, or flood mitigation as reasons to do all possible to encourage continued farming of Ohio lands. No one would argue that Ohio farmlands make a huge difference in world food supply (Tweeten) but extension of that logic throughout the United States could result in unnecessarily closing future food production options.

How Is CAUV Calculated?

Current agricultural use values for taxing farmland are determined by calculating the farm's projected gross income from agricultural production, subtracting projected non land production costs to get the farm's net income, then dividing this by an adjusted capitalization rate to arrive at the farmland's agricultural worth. Each step of this process is summarized below.

Projected gross income from agricultural production is computed starting with typical cropping patterns for the soil types found on a farm, applying the previous five year's statewide average yields per acre for each crop in the pattern, then multiplying these average yields by the previous five years' average price for each crop. The 3080

different soil types found in Ohio have been collapsed into six typical cropping patterns for the purpose of calculating a farm's projected gross income.

Then, non-land production costs are calculated to determine the farm's projected net income. These costs are five-year averages of such inputs as seed, fertilizer, fuel oil, grease, repairs, drying fuel and electricity costs, fuel for trucking, labor charges, and machinery and equipment charges. Each of these costs is estimated from Ohio Crop Enterprise Budgets, published by The Ohio State University's Department of Agricultural, Environmental, and Development Economics.

Since farmland is a classification of real estate, a capitalization rate is needed to determine a parcel's current worth to its owner, or the rate at which net income is captured in value of the land to be taxed. The capitalization rate for CAUV purposes is based on: 1. the average Farm Credit Service rate on a loan amounting to 60% of assets, payable over 15 years, and 2. the previous five years' average interest rate applied to the remaining 40% of assets in equity. With certain adjustments, this yields the capitalization rate before taxes. To illustrate, say a farm is found to have soils such that its typical cropping pattern is 50% corn and 50% soybeans. If the average yield per acre is 150 bushels of corn and 100 bushels of soybeans, the typical acre would have a projected yield of 75 bushels of corn and 50 bushels of soybeans. If over the previous five years, the average price of corn is \$2.00 per bushel and the average price of soybeans is \$6.00 per bushel, then the projected gross income for that acre would be \$150 from corn and \$300 from soybeans for a total of \$450. If non-land production costs have been determined to be \$300 per acre, this would yield a projected net income of \$150 on that acre. Finally, if, after all the calculations, the capitalization rate is determined to be 10%, then the agricultural use value of that acre is $\$150/.10=\1500 .

How Is CAUV Administered?

At the state level, CAUV is administered by the Department of Tax Equalization (DTE), within the Division of Taxation. County auditors administer the program in each of Ohio's 88 counties. The county auditor supplies the initial CAUV enrollment forms and verifies that the parcel meets the requirements set forth in the law. In addition, the county auditor records any changes made from one year to the next in the size of the parcels already enrolled, and collects the previous three years tax savings, called recoupment taxes, from any parcel which has been converted from agricultural to nonagricultural use. The auditor directs any recoupments collected back to the taxing district in which farmland was converted, to help pay infrastructure and public service costs that may follow any land conversion.

At the end of the year, the county auditor reports to the Department of Tax Equalization the total number of parcels and acreage enrolled in CAUV, the market value, and current agricultural use value of such acreage, and the assessed values for both market value and current agricultural use value of this acreage, in each taxing district. The county auditor also reports to DTE all recoupments collected in each taxing district on a form called the Property and Utility Abstract. DTE then compiles all 88 county reports to arrive at statewide CAUV totals.

Where Else Is CAUV Used?

All of the other 49 states have agricultural tax relief programs, though their names and specific provisions differ from those in Ohio. Hawaii, Iowa, New Hampshire, New York, Pennsylvania, and Wisconsin use more than one program.

There are two broad categories of agricultural tax relief programs. One is differential assessment, as in Ohio where farmland is assessed at its agricultural use value rather than its fair market value. The other is called a "circuit breaker" program, wherein farmers are allowed to claim state income tax credits to offset their local property tax bills when they exceed a certain percentage of household income.

There are three types of differential assessment programs. Preferential assessment programs allow farmland to be assessed at current agricultural use value, but there is no penalty for conversion to nonagricultural use. Deferred taxation programs, such as CAUV, are the same as preferential assessment programs, but there is a penalty for conversion. Restrictive agreements are legally enforceable contracts that prevent conversion for a specified period of time in return for the lower property tax. Every state but Michigan uses at least one type of differential assessment program.

How Much Is CAUV Used?

The CAUV program has enrollees in each of Ohio's 88 counties. Not surprisingly, the amount of acreage enrolled in each ranges very broadly, from several dozen acres in Cuyahoga County, to several tens of thousands of acres in some of the state's northern and western rural counties. In all, over six million acres have been enrolled in CAUV across the state throughout the 1990s. This corresponds to roughly 70,000 acres per county. The statistics on the exact number of acres for any county are available from the county auditor.

Selected References

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