



FARMLAND INFORMATION CENTER

FACT SHEET

DIFFERENTIAL ASSESSMENT AND CIRCUIT BREAKER TAX PROGRAMS



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DESCRIPTION

Tax incentives are widely used to maintain the economic viability of farming. All states have at least one program designed to reduce the amount of money farmers are required to pay in local real property taxes.

The most important type of agricultural tax program is known as differential assessment. Every state except Michigan has a differential assessment program that allows officials to assess farmland at its agricultural use value, rather than its fair market value, which is generally higher. Agricultural use value represents what farmers would pay to buy land in light of the net farm income they can expect to receive from it. Full fair market value represents the amount a willing buyer—whether farmer or developer—would pay for the land. Differential assessment is also known as current use assessment and use value assessment.

Three states—Michigan, New York and Wisconsin—allow farmers to claim state income tax credits to offset their local property tax bills. These programs are called “circuit breakers” because they relieve farmers of real property taxes that exceed a certain percentage of their income. Iowa and New York offer a credit against school taxes on agricultural land. While circuit breaker programs are not widespread, they are receiving increasing attention from state governments looking for ways to relieve farmers’ tax burden.

HISTORY

Iowa’s Agricultural Land Credit Fund, established in 1939, was the first state program to provide farmers with relief from property taxes. Maryland enacted the nation’s first differential assessment law in 1956. Between 1959 and 1969, 20 other states adopted differential assessment legislation. Michigan adopted its circuit breaker tax relief program in 1974. By 1989, all 50 states had at least one type of agricultural tax program for farmland owners, and several states had more than one program.

As the value of farmland has risen, states have expanded their agricultural tax programs. Michigan adopted a special tax rate for farmland as part of its comprehensive property tax reform legislation in 1994. Wisconsin created a differential assessment program to supplement its circuit breaker program in 1995, and New York supplemented its differential assessment program with a circuit breaker program in 1996.

FUNCTIONS & PURPOSES

Differential assessment laws and circuit breaker tax relief programs have three purposes: to help farmers stay in business by reducing their real property taxes; to treat farmers fairly by taxing farmland based on its value for agriculture, rather than at fair market value as if it were the site of a housing development; and to protect farmland by easing the financial pressures that force some farmers to sell their land for development.

As agricultural land is developed, property values rise. As new residents and businesses move to rural areas, local governments often raise property tax rates to support increased demand for public services. Tax rates that are based on the value of agricultural land for residential or commercial development do not reflect the current use of the land, nor farmers’ ability to pay. Increasing property values and the corresponding rise in taxes can reduce farm profitability.

High land values also make it more difficult for farmers to increase profits by expanding their operations. The combination of expensive real estate and high taxes creates strong economic incentives for farmers to stop farming and sell land for development. Differential assessment and circuit breaker programs help ensure that farmers who want to continue farming will not be forced to sell land just to pay their tax bills.

Differential assessment and circuit breaker programs also help correct inequities inherent in local property tax systems. Property taxes are assessed on a per-acre basis, and farmers are

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For additional information on farmland protection and stewardship contact the Farmland Information Center. The FIC offers a staffed answer service, online library, program monitoring, fact sheets and other educational materials.

often the largest landowners in rural community's. The amount of land a farm family owns, however, does not reflect the cost of services they receive from local government. Studies show that farmland owners pay more in taxes than the value of the public services they receive from local governments, while homeowners receive more services than their taxes pay for.

BENEFITS

- Agricultural tax programs help farmers stay in business by lowering their expenses.
- Agricultural tax programs help correct inequities in the tax system.

DRAWBACKS

- Agricultural tax programs do not ensure longterm protection of farmland.
- Differential assessment programs often provide a subsidy to real estate speculators, who are keeping their land in agriculture pending development.

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