

Subject: Irrigation taxes
Attachments: agqanda.pdf; 2016TaxFactsSupp.pdf

All information provided by Kansas Department of Revenue documents.

Irrigation of crops is not taxed, because it is considered a "Consumed In Production Exemption," if it meets four criteria:

1. Used in the actual process;
2. Essential or necessary to the process;
3. Consumed, depleted, or dissipated within one year; and
4. Not reusable for such purpose.

Irrigation equipment has two components for sales tax purposes – the parts that are considered to be farm machinery and equipment, and the items that are improvements to real property. Parts considered to be farm machinery and equipment are exempt if purchased for farm use (not used for human consumption or sanitation). Services to assemble or repair irrigation equipment for farm use are also exempt from sales tax.

- EXEMPT (as farm machinery and equipment): pivot system, heat exchanger, flowmeter, gear drive, bowl units, column pipe, tubing and shaft assembly, check valve, and the discharge head, as well as submersible pumps and motors, gate and check valves, drop pipe and chemical tank. The repair parts, including tires, and labor to install, repair or maintain these exempt components of irrigation equipment are also exempt from sales or use tax.
- TAXABLE (improvements to real property): the cement base, casing, gravel, underground discharge pipe, and underground plastic PVC irrigation pipe, along with the pressure tank, galvanized nipples and fittings, used on underground pipe well pits and lids, well seals, and pitless units and/or adapters, pump stand, surge pot and any underground or partially buried pipe up to the first above ground flag and partially buried pipe not mentioned. The labor to repair a taxable item is also taxable.
- Any labor services performed in or on irrigation wells are subject to sales tax, unless the service of installing or applying tangible personal property is in connection with the original construction of the irrigation well. Original construction might be either the first or initial construction of the well, or the reconstruction or repair of a well damaged by fire, flood, tornado, lightening, explosion, windstorm, ice loading and attendant winds, terrorism, or earthquake. A windstorm means straight line winds of at least 80 miles per hour as determined by a recognized meteorological reporting agency or organization.

The appraised value of agricultural land is based on the productive potential directly attributed to the natural capabilities of the land, not fair market value. Based on the type of agricultural land, a valuation is applied based on a set amount of previous years of use. The different types of land usage include dry cultivated land, irrigated land, tame grassland, and native grassland. See *Kansas Department of Revenue, Division of Property Valuation, The Ag Use Section "Agricultural Land Value in Kansas," February 28, 2017.*

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ANSWERS

TO COMMONLY ASKED QUESTIONS ABOUT AGRICULTURAL LAND VALUE IN KANSAS

By
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February 28, 2017

General Questions:

Who establishes the appraised value of agricultural land in Kansas?

- By law, the Director of the Division of Property Valuation of the State of Kansas is required to make a determination of agricultural land values annually.

How is agricultural land valued in Kansas?

- Valuation of agricultural land in Kansas is governed by Kansas law. The appraised value of agricultural land is based on the productive potential directly attributed to the natural capabilities of the land, **not fair market value**. Cultivated land is valued using an eight-year average of the landlord share of net income, with soil types used to recognize land productivity potential. For grassland an eight-year average of the landlord share of the net rental income is used. In the case of grassland, productivity is established by use of the grazing index assigned to each soil type. In either case the resulting eight-year average landlord net income is divided by a capitalization rate to arrive at the appraised value.

How is the inherent productive capability determined for agricultural land?

- According to K.S.A. 79-1476, "valuations shall be established for each parcel of land devoted to agricultural use upon the basis of the agricultural income or productivity attributable to the inherent capabilities of such land." "A classification system for all land devoted to agricultural use shall be adopted by the director of property valuation using criteria established by the United States department of agriculture soil conservation service." That system, developed by the now Natural Resource Conservation Service (NRCS), is the Soil Rating for Plant Growth (SRPG) index for each soil map unit.
- The SRPG (Soil Rating for Plant Growth) is a numerical rating system developed by NRCS soil scientists for non-irrigated cropland. The index is not tied to yields, which removes management variables. It is designed to rate each soil map unit based on its potential for supporting plant growth and indexed based on the soil's properties.
- The KIPPI (Kansas Irrigated Productivity Index) is a numerical rating system for irrigated cropland developed by Department of Agronomy at Kansas State University in cooperation with NRCS. The KIPPI is designed to rank the productivity of each soil map unit.

What is the responsibility of the county appraiser concerning agricultural land?

- The county appraiser is responsible for discovering, listing, classifying and valuing all taxable property within the county in accordance with the applicable state laws in a uniform and equal manner. However as it relates to agricultural land, the county appraiser does not value this type of property but is responsible for listing each property's correct current usage and acreage.

What are the different types of agricultural land?

Agricultural land is classified in the following usage categories:

- Dry cultivated land
- Irrigated land
- Tame grassland
- Native grassland

Capitalization Rate:

What is the capitalization rate?

- The capitalization rate is used to convert the landlord share of agricultural net income into an agricultural value. The following three components make up the capitalization rate:
 1. The five-year average of the Federal Land Bank interest rate on new loans in Kansas as of July 1 of each year.
 2. An "add on" of not less than .75% nor more than 2.75% determined by the Director of Property Valuation.
 3. As of property tax year 2003, the capitalization rate shall not be less than 11% nor more than 12% as mandated by the 2002 Kansas Legislature.
 4. The county average agricultural property tax rate. This accounts for property taxes on agricultural land as an expense.

The sum of these three components is the capitalization rate percentage that is divided into the landlord net income (LNI) to arrive at the agricultural value. The higher the capitalization rate, the lower the agricultural value. For example, a higher county average agricultural property tax rate (expense) means the final agricultural value will be lower (all other things being equal).

Why are values in some counties higher than those in surrounding counties?

Differences can be attributed to one or more of the following:

- Crop mix, (the major crops in a county).
- Differences between landlord share of income and expense ratios.
- Different agricultural cap rate. For example, a county may have an extremely low agricultural cap rate due to an electrical power generating plant, which carries a large portion of the taxes.

Native and Tame Grassland

How is the landlord net rental income determined for grassland?

- The landowners share of gross rental income is based on stocking rates (measurement of productivity) and cash rental rates developed from regional studies performed by Kansas Agricultural Statistics, the Natural Resources Conservation Service and Kansas State University.
- The landlord shares of expenses are based on survey information collected by Kansas Agricultural Statistics and Kansas State University. Expenses included are; fencing and fence maintenance, pasture spraying and maintenance and watering cost.
- The landlord share of gross rental income less the landlord share of expenses (including a 10% management fee) equals the landlord share of net rental income.

Dryland:

How is the landlord net income determined for dryland?

- Using information from Kansas Agricultural Statistics, the landlord share of gross income is based upon the yields and prices of the primary crops grown in the county or region. Yields are based on planted acres and adjusted for summer fallow where applicable. Prices are based on the monthly average price weighted by the amount crop sold per month. Each of the primary crops are then weighted within the county to determine crop composition or “crop mix”.
- The landlord share of expenses are weighted by the crop mix factors within the county. The expense data is based on planted acres and survey information collected by Kansas Agricultural Statistics and Kansas State University.
- The landlord share of gross income less the landlord share of expenses (including a 10% management fee) equals the landlord net income.
- The eight-year average of the landlord net incomes are capitalized into value.

Irrigated Land:

How is the landlord net income determined for irrigated land?

- Using information from Kansas Agricultural Statistics the landlord share of gross income is based on yields of primary crop harvested acres. Each of the primary crops is then weighted within the district to determine crop mix.
- The landlord share of expenses is based on planted acres and is also weighted within the district. Kansas Agricultural Statistics and Kansas State University collect the expense data. Expenses are also weighed by the crop mix.
- The landlord share of gross income less the landlord share of expenses (including a 10% management fee) equals the landlord net income.
- Well depths are taken into consideration through irrigation equipment and fuel pumping costs.
- A water ratio table is used to adjust for water limitations.

Counties in the east irrigate; why don't they have separate values?

- These counties are in the one-acre-feet region of water, and irrigation is an insurance against dry periods.
- The irrigated values used in the east are a percentage increase of dryland values in the county and will change as dryland values in the county change

Why is irrigation valued on a district basis?

- It prevents massive value swings across county lines.
- It creates uniformity across county lines.
- Irrigation tends to lessen the effects of climate, allowing larger geographic areas to have approximately the same productivity.

Why is there still so much variability where the irrigation districts meet?

Variability can be attributed to differences in one or more of the following:

- crop mix,
- ownership of the sprinkler,
- ratio of flood and pivot acres in the district,
- district average yields,
- landlord share of net income,
- county agricultural tax rates, and
- differences between counties in the 2 acre-feet region and counties in the 1½ acre-feet region.