



## Ohio Administrative Code

### Rule 5703-25-33 Current agricultural use value of land table or tables.

Effective: September 18, 2003

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(A) The annual "Current Agricultural Use Value Of Land Table Or Tables" to be prescribed by the tax commissioner shall be calculated and prepared by the capitalization of the typical net income before real property and income taxes from agricultural products assuming typical management, cropping and land use patterns and yields for a given type of soil, as provided in this rule.

(B) The use of the income approach to develop annual "Current Agricultural Use Value of Land Table Or Tables" that are accurate, reliable and practical requires that careful attention be given to the many principles and techniques involved. It is essential that the typical or potential net income be based on the land capability under normal or typical management practices, yields, cropping or land use patterns, prices, costs and conditions in the area rather than the management ability or decisions of an individual owner or operator. To avoid erratic fluctuations of value due to spot economic, market or climatic conditions, five year moving averages of price costs, cropping patterns and other factors shall be used where practical. In addition, the effect of changes in agricultural technology and economic relationships must constantly be reevaluated. The agricultural advisory committee shall function to keep the commissioner informed of such technological and economic changes.

(C) The most critical determination is the capitalization rate. This rate shall be determined by comparison of net income, calculated as described in this rule, to known prices or market value appraisals of farms that have been sold or appraised under the conditions prescribed by the definition of "Current Agricultural Use Value of Land" in rule 5703-25-30 of the Administrative Code. The synthesis of the capitalization rate by other than market data shall be by a method that gives weight to the factors present in the market for such property.

(D) Information shall be obtained from such agencies as cooperative extension service, college of agriculture, the Ohio state university; Ohio agricultural research and development center; national resources conservation services, U.S.D.A.; forest service, U.S.D.A.; national agricultural statistical service, U.S.D.A.; department of agriculture of Ohio; department of natural resources of Ohio, federal land bank and other reliable sources.



(E) In the absence of crop yield information for any soil mapping unit present in Ohio, the tax commissioner shall, in consultation with the department of natural resources of Ohio, determine the appropriate crop yield and soil productivity information for that mapping unit.

(F) Land capability classes: Consideration shall be given to the land capability class of a soil as determined by the soil conservation service based on the soils suitability to grow various crops and potential hazards considering slope, drainage, erosion and other factors. The typical land capability class for a soil management group shall be determined and this class shall serve as a base for calculation of values when the soils in a group fall in other than typical land capability class. Usually the typical class for which the base value for a soil management group is calculated will be the class with the least hazard for the group.

The major land capability classes are as follows:

(1) Land adapted for crops:

Class I	No special hazards, very good land from every standpoint.
Class II	Some hazards which require good conservation practices.
Class III	Several intensive hazards which require intensive conservation practices.
Class IV	Very severe hazards, needs very careful handling and management.

(2) Land for permanent vegetation only:

Class V	Very frequent flooding or permanently wet.
Class VI	Moderate hazards to be overcome for pasture use.
Class VII	Severe limitations for grazing or forestry, very steep.
Class VIII	Not suited for cultivation, pasture or forests. Wildlife and recreation is the best use.



(G) Cropping pattern by land capability classes: The cropping pattern or proportion of different crops grown will vary with both the soil region and the land capability class. A higher percentage of row crops will be grown on the better soils with land capability class ratings such as I or II. Land in land capability class V through VIII shall be considered as devoted entirely to either pasture or woodland. Annually the commissioner shall calculate the five year moving average of each crop harvested in each of the extension areas of Ohio. A determination shall be made of the percentage of each rotation acre devoted to each crop for land capability classes I through IV. Such determination shall be made separately for:

(1) Soil regions A, B, I, II, III, IV, V, and VIII.

(2) Soil regions VI and VII.

(3) Organic or muck soils.

(H) Crop prices: Five year moving weighted average crop prices for the major field crops are to be calculated by totaling the production and value of each crop, as reported by the statistical reporting service or other reliable source, for the five years preceding the year in which the table is issued and calculating the average price per unit after consideration of price differentials in various parts of the state.

(I) Management: A percentage to be determined annually shall be deducted from the five year moving weighted average crop prices to provide for typical management costs incurred by the land owner.

(J) Non land production costs: Information on typical non-land production costs shall be obtained from the best available sources. Where the available information is for a base year other than the current year such prices shall be adjusted to a five year moving average basis by the use of the U.S.D.A. index of prices paid for production items, interest, taxes, and farm wage rules reported each June in U.S.D.A. agricultural prices, or other reliable sources. In developing these costs consideration shall be given to extra expense incurred by the use of more seed, fertilizer, etc., on the more productive soils.



(K) Estimation of net income for a rotation acre of a given soil management group: The steps to be used in estimating net income shall be as follows:

(1) The midpoint of the range of minimum yields for each major field crop is determined for each soil management group.

(2) The gross income per acre for a given crop is determined by multiplying the midpoint of yield by the five year weighted average price per unit reduced by the percentage for management expense as determined under paragraph (I) of this rule.

(3) The five year average non-land crop expense for the appropriate yield level is deducted from gross income to determine net income per acre.

(4) The typical land capability class is estimated for each soil management group based on information from the soil conservation service and the cropping pattern assigned from paragraph (G) of this rule. This multiplied by the net return per acre gives the contribution from the crop to the rotation acre.

(5) The total of the net return from each crop in the rotation is the total net return to be capitalized into land value.

(L) Adjustment for land capability class other than typical for soil management group: Since the soils in a given soil management group occur in different land capability classes a method must be provided for adjusting from the typical to the non-typical situation. The following is an example of the adjustment factors to be used to adjust from the land capability class for which the net return or value per acre was actually calculated to another class by multiplying such return or value.

Adjust To	I	II	III	IV
I	1.00	1.26	1.79	3.10
II	.79	1.00	1.42	2.46
III	.55	.70	1.00	1.73
IV	.32	.41	.58	1.00
V	.29	.36	.52	.89



VI	.17	.22	.31	.53
VII	.06	.07	.10	.18
VIII	.03	.04	.05	.09

Use of these factors will allow the estimation of net income per acre through the range of land capability classes for soils in a soil management group.

(M) Capitalization rate:

(1) For the purpose of estimating the capitalization rate to be used in determining the base values of agricultural land the use of the mortgage-equity method is prescribed. In making the rate determination the five year running average of each of the following items will be used:

(a) Typical term of years, per cent of mortgage and return on farm mortgages as reported by federal land bank and other sources.

(b) Return on investors equity - This shall be extracted from market data.

(c) Depreciation or appreciation expected in property (agricultural land) over the next five years. The moving average of the preceding five years of percentage increases or decreases in U.S.D.A. farm real estate index for Ohio for March of each year over the previous year shall be considered as the estimate of this term. In the consideration of the weight to be given to this item the effect of speculation should be removed so that the appreciation that accrues in land values over a five-year period from improvement in agricultural technology and practices only is reflected.

(2) After these terms have been determined the over all capitalization rate shall be calculated by reference to compound interest tables.

To the capitalization rate adjusted for land only shall be added the effective real property tax rate. This is to be determined by multiplying the five year average state tax rate as shown in department of taxation records by thirty-five per cent and expressed as a percentage. This rate shall be further reduced to reflect the average effect of the reductions required by section 319.301 of the Revised Code. The total of the two rates is the agricultural land capitalization rate. This should represent the



rate of return a prudent investor would expect on an average or typical Ohio farm considering only agricultural factors.

(3) Since capitalization rates will vary with the land capability class due to the difference of risk and operating costs market studies shall be designed to determine such differential in rates.

(4) The per acre value of each soil category will be determined by dividing the net return per acre by the appropriate rate. Values in classes I through IV shall be the values for cropland. If land in these classes is used for other purposes such as forestry or pasture the cost of converting from present use to crop use shall be deducted. Values in classes V through VII shall be the value for pasture and woodland.