Members Brief

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Current Agricultural Use Value

In Ohio, farmland that is devoted to commercial agriculture may be valued according to its "current agricultural use value" (CAUV) for property tax purposes. The CAUV formula typically results in a lower tax bill for farm owners because the land is often valued below its actual market value, particularly in areas where farmland is in demand for development purposes. This brief outlines the CAUV formula, provides background on the historical roots of CAUV, and discusses recent trends in CAUV values.

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Introduction

In Ohio, farmland that is devoted to commercial agriculture may be valued according to its "current agricultural use value" (CAUV) for property tax purposes. The CAUV formula is designed to provide an estimated value of a property considering only its use for agriculture, rather than its "best" potential use (e.g., for residential or commercial development). The goal of the law is to encourage landowners to continue using their land in agriculture in the face of economic pressure to convert the land to more lucrative uses.

The use of CAUV is available to farms having at least ten acres or an average annual gross income of at least $2,500. In 2024, a total of 16 million acres was valued according to its CAUV, ranging from 2,168 in Cuyahoga County to 343,403 in Darke County.[1]

Historical roots of CAUV

Before a series of landmark Ohio Supreme Court cases in the 1960s and 1970s, the method used to value real property for property tax purposes was not uniform, and some county auditors, in practice, valued farmland according to its ability to produce crops rather than its fair market value. Beginning in 1964, the Court rendered a series of decisions, collectively known as the "*Park Investment* cases," that required all property to be valued according to its fair market value. These cases relied on a constitutional provision that requires all land to be "taxed by uniform rule according to value."[2] Interpreting this language, the Court held that the Constitution does not permit "a classification of real property according to use, rather the rule is that all real property must be taxed according to its value."[3]

In 1973, partly in response to the *Park Investment* cases, Ohio voters approved an exception to the uniform rule for agricultural land. The constitutional amendment allowed such land to be valued at its CAUV rather than its fair market value.[4] One year later, the General Assembly enacted Ohio's CAUV property tax law.[5]

Statutory and administrative law

The statutes adopted in 1974 do not prescribe the specific method for determining CAUV values. Instead, the law requires that the Tax Commissioner adopt a method by administrative rule that "reflect[s] standard and modern appraisal techniques" that account for considerations like soil productivity, crop prices, a farm's income potential, and "other pertinent factors."[6]

Guided by these administrative rules, the Tax Commissioner publishes annual CAUV "land tables" in consultation with an Agricultural Advisory Committee.[7] The land tables apply to CAUV land in counties undergoing reappraisal or assessment update that year and continue to apply in those counties for the following two years until the next reappraisal or update year.

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[1] See Ohio Department of Taxation, Summary of Tax Data Series PD32 (click on "Property"), available by conducting a keyword "tax data series" search on ODT's website: tax.ohio.gov.

[2] Article XII, Section 2, Ohio Constitution.

[3] *State ex rel. Park Inv. Co. v. Bd. of Tax Appeals*, 175 Ohio St. 410, 412 (1964).

[4] H.J.R. 13 of the 110th General Assembly (amending Article II, Section 36, Ohio Constitution).

[5] S.B. 423 of the 110th General Assembly.

[6] R.C. 5715.01(A).

[7] Ohio Administrative Code (O.A.C.) 5703-25-32.

CAUV formula

Generally, the CAUV formula involves (1) determining a farm's projected gross income, (2) subtracting the costs of production, and (3) dividing the resulting net income by a capitalization rate to arrive at the farm's value for agricultural use.[8]

Projected gross income

There are four factors that influence a farm's gross income: (1) soil type, (2) crop yields, (3) crop prices, and (4) management costs. There are about 3,500 soil types in the state, each with an associated productivity, plotted on a soil map. Crop prices are calculated using a five-year weighted average, while crop yields are updated by a factor based on ten years of statewide yield information published by the U.S. Department of Agriculture.

As an example, assume that, given a farm's soil type, the average yield per acre of corn is 200 bushels, of wheat is 50 bushels, and of soybeans is 100 bushels. Also, assume that the five-year average price of corn was $2.00 per bushel, wheat was $4.00 per bushel, and soybeans was $3.00 per bushel. Finally, assume the Tax Commissioner has determined that these prices should be reduced by 10% to adjust for management costs. On that farm, the projected gross income of an acre of corn would be $360 ($1.80 x 200 bushels), an acre of wheat would be $180 ($3.60 x 50 bushels), and an acre of soybeans would be $270 ($2.70 x 100 bushels).

Costs of production

To determine projected net income per acre, the Tax Commissioner calculates the average per-acre "nonland production costs" and subtracts these costs from projected per-acre gross income. Nonland production costs include items such as seed, fertilizer, machinery, repairs, fuel, interest, and wages.[9] Then, those initial net income figures are multiplied by an average cropping pattern, based upon the land's capability.

For example, continuing the scenario above, assume the Tax Commissioner determines that the average non-land production costs of an acre of corn or soybeans are $200 and such costs for an acre of wheat are $100. For our sample farm, the initial net income would be: $160 ($360-$200) from an acre of corn, $80 ($180-$100) from an acre of wheat, and $70 ($270-$200) from an acre of soybeans.

Now, assume the average cropping pattern for such a farm, given its soil type and land capability, is 50% corn, 25% wheat, and 25% soybeans. The total per-acre net income of the farm would be calculated to be $117.50 ($80 + $20 + $17.50).

Capitalization of net income

Finally, to determine the value of a parcel, the Tax Commissioner will divide the parcel's total estimated net income by a capitalization rate. According to the administrative rules, the

[8] See annual "Explanations of CAUV values," on ODT's Current Agricultural Use Value (CAUV) web page, available by conducting a keyword "CAUV" search on ODT's website: tax.ohio.gov.

[9] Similar to crop prices, these costs are calculated using a five-year average of data. Since the costs vary with crop type, a different cost figure is calculated for each crop type.

capitalization rate is intended to represent the combined, after-tax rate of return a prudent investor and lender would expect to earn from operating an Ohio farm considering only agricultural factors (i.e., the farm's income-producing potential).[10]

To continue the scenario described above, assume that the capitalization rate is 10%. The value of the example farm would be $117.50/0.10 = $1,175 per acre.[11]

Woodland and conservation areas

The CAUV formula also applies to certain land devoted to conservation and to certain woodlands.[12] Conservation land that is eligible for CAUV must be valued as though the land's soil type is the lowest valued of all soil types according to the Tax Commissioner's annual determination, even if the soil map indicates otherwise. The value of woodlands equals the value the land would have if it produced crops, less the clearing and drainage costs that would be required to convert the woodland to cropland.[13]

Determination of CAUV landowner's tax liability

County auditors apply the CAUV formula to individual parcels within their counties based on each parcel's soil type. As with other real property, these parcels are assessed at 35% of their determined value. The assessed value is then multiplied by the tax rate, which is the same that applies to residential property. The resulting gross tax charged is then adjusted by the tax reduction factors and further reduced by the nonbusiness tax credit to yield the net tax due on the parcel.

Tax reduction factor

The tax reduction factor can play an important role in mitigating the impact of significant increases in CAUV values. The factor is a state tax policy designed to prevent increasing real estate values from resulting in a corresponding increase in property taxes. Generally, if the proceeds from the taxes levied on real property in one year will exceed the proceeds from those taxes in the preceding year, the taxes charged for the current year must be reduced to account for the difference.[14] As a result of the tax reduction factor, an increase in agricultural property values may result in higher tax bills for farm owners, but those tax bills will not necessarily increase in the same proportion as the property values.

Another consequence of the tax reduction factor is that the total tax burden in a community may shift between agricultural and residential property. Generally, a greater share of

[10] O.A.C. 5703-25-33(M). For an explanation of how the capitalization rate is determined, see ODT's annual "Explanations of CAUV values."

[11] The formula also assigns minimum values per parcel. In 2024, the minimum at which a parcel of cropland could be valued was $350. The minimum value for woodlands was $230.

[12] R.C. 5713.30.

[13] See ODT's annual "Explanations of CAUV values."

[14] The tax reduction factor does not prevent all increases in property taxes, because it does not apply to (1) new construction, (2) levies that are designed to raise a fixed amount of revenue each year (fixed-sum levies), and (3) inside millage (millage that does not require voter approval).

the taxes will shift toward properties that experience relatively greater increases in value. So, for example, if agricultural land values increase at a slower rate than residential values, taxes will shift toward residential property because its value represents a greater share of the total property value in the community.[15]

Nonbusiness credit

Farmland is eligible for the state's property tax credit for nonbusiness property, often referred to as the "10% property tax rollback," unless the land is used for the commercial production of timber. The credit reduces the taxes owed on qualifying property tax levies by 10%. New and replacement levies approved at elections held on or after November 2013 are not included in computing the credit.[16]

Recoupment

Since the inception of the CAUV program, farmland that is converted to a nonfarm use is no longer eligible for CAUV and is subject to a recoupment charge. The charge equals the property tax savings during the three years preceding the conversion.[17] The purpose of the charge is to discourage converting farmland to developed uses, in keeping with the farmland preservation motive of the CAUV law.

Recent CAUV increases and legislative response

In the last 15 years, agricultural land values have increased in two waves, with a small decrease in the middle. The first wave, in the early 2010s, was largely due to two factors: an increase in crop prices (which makes farmland potentially more valuable to buyers) and low interest rates (which lower production costs by making the cost of borrowing cheaper). For example, between 2010 and 2015, the five-year weighted average crop price for corn increased from $2.66 to $4.55 per bushel. [18]

In 2017, in response to those increases, the General Assembly adopted legislation to adjust the CAUV formula.[19] Most significantly, the act required the use of certain inputs to the calculation of the capitalization rate. The effect of this change was to increase the capitalization rate, which has the reciprocal effect of lowering CAUV values. Consequently, the capitalization rate increased from 6.3% in 2016 to 8% in 2017.[20]

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[15] For a thorough discussion of the tax reduction factor, see the Legislative Service Commission's *Members Brief,* Property Tax Reduction Factor (PDF), which is available at LSC's website: lsc.ohio.gov.

[16] R.C. 319.302.

[17] Article II, Section 36, Ohio Constitution; R.C. 5713.34.

[18] See ODT's annual "Explanations of CAUV values."

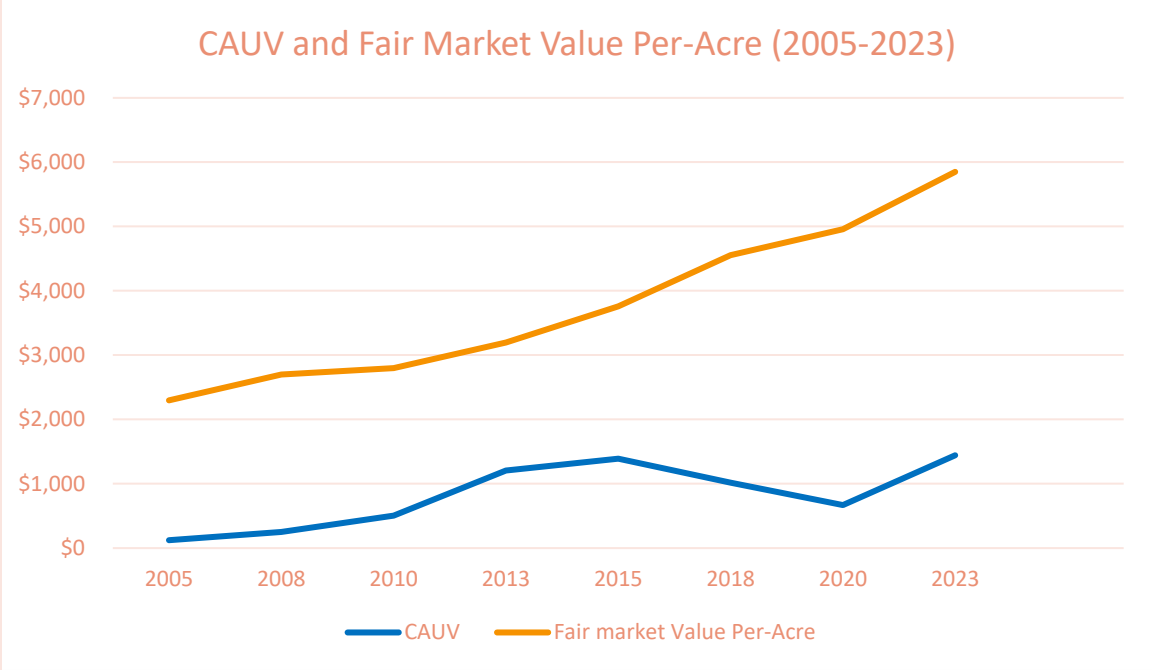
[19] H.B. 49 of the 132nd General Assembly, the FY 2018-FY 2019 biennial budget act.

[20] The Commissioner, in consultation with the Agricultural Advisory Committee, also periodically makes administrative adjustments to the CAUV formula. In 2017, the Commissioner made a further change to the capitalization rate, beyond the changes required that year by H.B. 49. In 2015, the Commissioner made several changes, including adjusting the calculation of the capitalization rate and increasing the clearing

More recently, a combination of increasing crop prices and crop yields have led to further increases in CAUV values. For example, the five-year weighted average price of corn increased from $3.63 in 2020 to $4.40 in 2024. The average yield per acre of corn has increased from 151.9 bushels per acre in 2014 to 176.5 bushels per acre in 2024.

Chart of recent CAUV values

The following chart of land values shows the difference between average CAUV and appraised fair market value of CAUV land over 18 years. Market valuation has consistently appreciated in nominal dollar terms (i.e., not adjusted for general price inflation), while calculated CAUV values reflect fluctuations in formula factors, including the legislative adjustments in 2017.



and drainage costs used in determining the value of woodlands. See ODT's annual "Explanations of CAUV values" for 2014 and 2015.