

# ANALYSIS

# A guide to CAUV



## So why have CAUV land values been going up?

In recent years, the average crop prices used in CAUV calculations have generally increased at a greater rate than the corresponding production costs. This translates to a larger projected net income per acre.

At the same time, lower interest rates led to a decrease in the capitalization rate.

Simply put: A higher net income divided by a lower capitalization rate equals an increase in CAUV land values.

### Capitalization Rates

2004- 9.0%	2008- 8.3%
2005- 8.6%	2009- 7.9%
2006- 8.5%	2010- 7.8%
2007- 8.4%	

**Final Note:** The rate of increase in CAUV land values does not necessarily translate to the same rate of increase in taxes owed by the landowner due to tax credits and other factors. CAUV values remain substantially lower than the fair market value, making the program essential to farmers.

## What is CAUV?

CAUV was established after Ohio Farm Bureau campaigned for a constitutional amendment to have farmland taxed for its agricultural value, rather than its fair market value. The agricultural value of farmland is determined by the following equation:

$$\frac{(\text{Income from agricultural production} - \text{Non-land production costs})}{\text{Capitalization rate}} = \text{Current Agricultural Use Value}$$

### 1 Start with gross farm income:

The projected farm income for all land enrolled in CAUV is based on the soil type and data from three crops: corn, soybeans and wheat.



Yield information for each of these crops starts with Farm Service Agency production data and is adjusted by the 10-year average of actual statewide yields.

Prices for each crop are based on a survey of Ohio grain elevators.\*



### 2 Subtract non-land production costs\*:

These costs are based on Ohio State University data and include typical farm input costs for corn, soybeans and wheat.



### 3 Divide by the Capitalization Rate\*

This rate is based on the mortgage interest rate for a 15-year fixed rate mortgage from Farm Credit Services with 40 percent equity and 60 percent debt and is adjusted for taxes.



Farmers who are enrolled in the Current Agricultural Use Valuation (CAUV) program have been seeing sharp increases in the taxable value of their land. While no less frustrating to landowners, these increases can be explained by looking at how the formula works.

## Consider the following example based on 2010 data for the Miami Silt Loam soil type:

### Corn:

Average Yield : 171 bushels per acre  
 Average Price: \$2.66 per bushel  
 Gross Income Per Acre: \$454.86  
 Non-land production costs: \$330.64  
**Net return per acre: \$124.22**

### Soybeans:

Average Yield: 59 bushels per acre  
 Average Price: \$6.41 per bushel  
 Gross Income Per Acre: \$378.19  
 Non-land production costs: \$204.28  
**Net return per acre: \$173.91**

### Wheat:

Average Yield: 64 bushels per acre  
 Average Price: \$3.41 per bushel  
 Gross Income Per Acre: \$334.18  
 Non-land production costs: \$222.60  
**Net return per acre: \$111.58**

### Factoring in Cropping Patterns

Harvest data will determine the percent that each crop will represent in the final per acre income:  
 2010 Cropping Data - Corn: 39 percent, Soybeans: 51 percent, Wheat: 10 percent

### Final Per Acre Income for Miami Silt Loam

Corn: \$124.22 x .39 = \$48.45  
 Soybeans: \$173.91 x .51 = \$88.69  
 Wheat: \$111.58 x .10 = \$11.16  
 Total = \$148.30

### Final Current Agricultural Use Value

A net income of \$148.30/  
 Capitalization Rate of 7.8 percent =  
 CAUV Land Value of \$1901.28 per acre for farms with Miami Silt Loam.

\*When determining crop prices, production costs and the capitalization rate, the last seven years of values are used, with the highest and lowest values removed and the remaining five years averaged.