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Property Tax Trends Affecting Michigan Farmers
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PROPERTY TAX TRENDS AFFECTING MICHIGAN FARMERS

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In Cooperation with
Farm Economics Research Division
Agricultural Research Service
United States Department of Agriculture

SUMMARY

1. Property tax collections have increased about 10 percent per year in Michigan since 1945. The increases are the result of (1) rising price levels, which have increased property values; (2) the addition of new property to the tax rolls; and (3) expansion in the demand for services, which has forced tax rates upward.

2. Taxes in a sample of rural townships were more than three times as high in 1955 as in 1940. This increase was comparable to the property tax trend for the state as a whole. Taxes in a sample of urbanized townships, however, were 11 times as high in 1955 as in 1940. About half of the increases could be attributed to the rise in the general price level.

3. Increase in taxable valuation was an important factor in bringing taxes to their current levels. Assessed valuations increased in all of the sample areas between 1940 and 1955, but failed to keep pace with county and state-equalized valuations. Equalized valuations in turn rose less rapidly than the market value of taxable property. Personal property accounted for a larger share of all taxable property in 1955 than in 1940. Addition of new property to the tax rolls was the major cause of higher valuations in the urbanized townships.

4. Tax rates per dollar of state equalized valuation increased 67 percent from 1940 to 1955 in the urbanized townships and 38 percent in the rural townships in southern Michigan. There was a slight decrease in rates in the rural townships of northern Michigan during the same period.

5. School districts have become the largest users of property tax revenues. Schools took approximately 60 percent of all property taxes in the rural townships and 71 percent in the urbanized townships in 1955. For the state as a whole, school taxes represented 46 percent of the general property tax.

6. The average tax per acre of farm real estate in Michigan was more than 3½ times as high in 1957 as in 1940. The tax per \$100 of value, however, was only slightly higher in 1957 than in 1940.

7. Real estate taxes took 8.0 percent of the average Michigan farmer's net income in 1957, compared with 4.1 percent in 1950 and

2.6 percent in 1945. Property taxes in 1956 represented 7.8 percent of the net income of farm operators in a sample of Michigan farm account cooperators, compared with 4.1 percent in 1950 and 3 percent in 1945.

8. The burden of property taxes on farmers is heaviest in the areas surrounding large cities and in areas with relatively unproductive farmland. Inaccurate assessments have often added to the tax load in these areas.

9. Improved administration of the property tax would tend to distribute its burden more equitably among property owners. The increasingly high proportion of property tax revenues used by the school districts suggests a need for alternative methods of support of our school system.

Property Tax Trends Affecting Michigan Farmers¹

By WILLIAM H. HENEBERRY² and RALEIGH BARLOWE³

PROPERTY TAX COLLECTIONS have increased around 10 percent per year in Michigan since 1945. Altogether, some \$710 million in general property taxes were levied in Michigan in 1957 (69 percent on real properties and 31 percent on various types of personalty). This total compares with property tax levies of \$167 million in 1940, \$205 million in 1945, and \$342 million in 1950.

Some of this more than four-fold increase in property taxes since 1940 may be attributed to new construction. However, much of it has resulted from rising assessed values and higher tax rates. Assessed values have tended to go up with—though not as fast as—increasing property values. Also, higher tax rates have been needed in many areas to cover the rising costs of the services provided by our local units of government.

This upward trend in property taxes has given rise to several important problems. Some property owners have been called upon to bear significantly larger increases in their tax loads than others. Most farmers have felt the squeeze of rising taxes against reduced farm incomes. Rising taxes have added to the pressures many farmers around our cities have felt for selling their lands for residential and other urbanized uses.

Property owners in most areas have been asked to vote for long-term property tax commitments for the provision of schools and other desired facilities. This situation, coupled with our rising demand for property-tax-supported services, has led many people to wonder how far we can push our dependence on this tax without undermining our tax base and perhaps setting the stage for another wave of tax delinquency such as that experienced during the late 1920's and 1930's.

Emphasis is given in this report to the trend in general property taxes in Michigan and to a brief analysis of some of the effects of these tax trends on farmers.

¹The authors gratefully acknowledge their appreciation to the staff of the Michigan State Tax Commission whose cooperation made this study possible.

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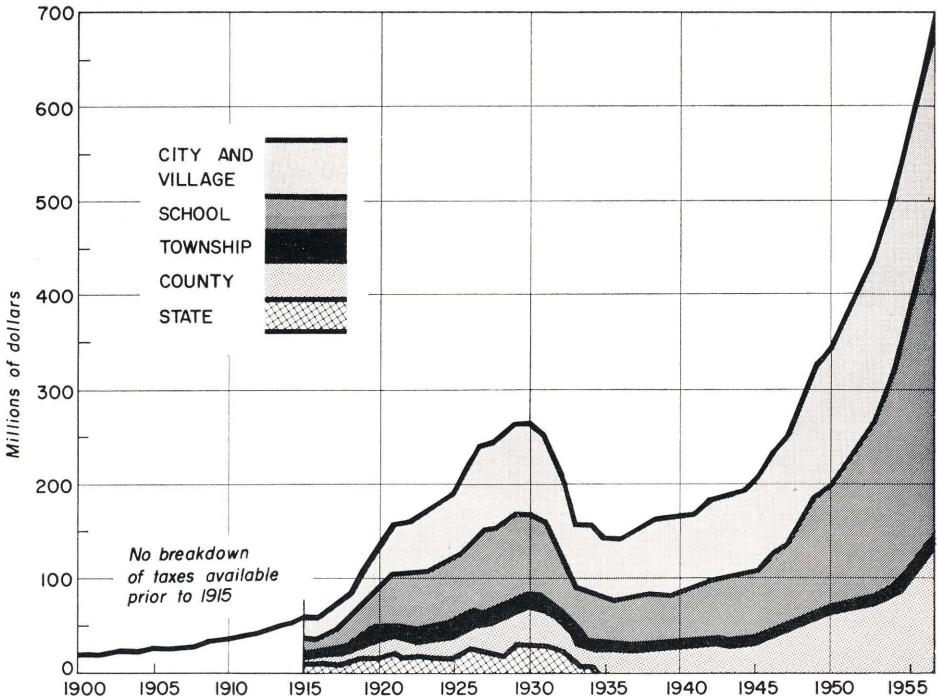


Fig. 1. Total property taxes levied by state, counties, townships, schools, cities and villages in Michigan, 1900-1957.

Property Tax Trends Since 1900

Property taxes have had a varied history in Michigan since 1900 (Fig. 1). Only \$20 million in property taxes (76 percent on realty and 24 percent on personalty) were levied in the state in 1900. This total went up gradually until a total of \$60 million was levied in 1915. It increased rapidly following World War I and in the late 1920's, until it reached a high of \$267 million in 1930. The onset of the depression at this point brought a general reduction of property values while the inability of many owners to pay their taxes resulted in widespread tax delinquency and tax reversion.

This situation prompted a series of tax reform measures. A constitutional amendment calling for a 15-mill limitation on property taxes was enacted in 1932. Most of the burden of providing and maintaining county and township highways was shifted to the state by the Horton Act of 1932.

A state sales tax was enacted in 1933 to provide a new source of revenue for the state government. And the state property tax, which

had accounted for 15.7 percent of the total property tax levy in 1915 and 11.1 percent of this levy in 1930, was discontinued after 1934.

These reforms brought the total property levy in the state down to \$146 million in 1936. The amount of this levy then gradually increased until 1945, after which it increased rapidly to its 1957 total of \$710 million.

Property taxes have long been regarded as a major source of state and local government revenues. They provided 83 percent of the revenues for the state and local governments of Michigan in 1900. With the tax reforms of the early 1930's, their proportionate importance declined so that they provided only 40 percent of these revenues in 1935.⁴ Local property taxes (not counting the state-collected tax on utilities) accounted for 54.3 percent of the combined state and local tax revenues collected in Michigan during the 1939-40 fiscal year and for 46.7 and 45.5 percent of this total in 1949-50 and 1956-57, respectively.

A balanced appraisal of the significance of the upward trend in property taxes during the last two decades calls for some consideration of what has happened to property values, living costs, and individual incomes during this same period. The fact that the total property tax levy more than quadrupled between 1940 and 1957 loses some of its sting when it is remembered that the state equalized valuation of taxable properties increased from \$5.6 billion to \$21.6 billion during this 18-year period.

Farm and urban property values increased around three and a half times between 1940 and 1957.⁵ The national consumer price index more than doubled. Individual incomes were also up, as is indicated by the average Michigan per capita income figures of \$616 for 1940 and \$2,179 for 1957.⁶

Data compiled by the Michigan Department of Revenue (Fig. 2) show that property taxes were equal to 5.2 percent of the average per capita income in Michigan in 1940. They dropped to a low of 2.7 percent in 1944, and have since fluctuated somewhat while rising to a 3.6 percent level in 1956. State taxes have accounted for a larger proportionate share of the average per capita income than property taxes in almost every year since 1940.

A general comparison of state and local tax costs in Michigan and several neighboring states for 1953 is reported in Table 1. This

⁴Michigan State Tax Commission, *Report for 1937-38*, p. 29.

⁵The national index of value per acre of farm real estate rose from 49 in 1940 to 151 in 1957.

⁶Michigan Department of Revenue, *16th Annual Report, 1956-1957*, p. 13.

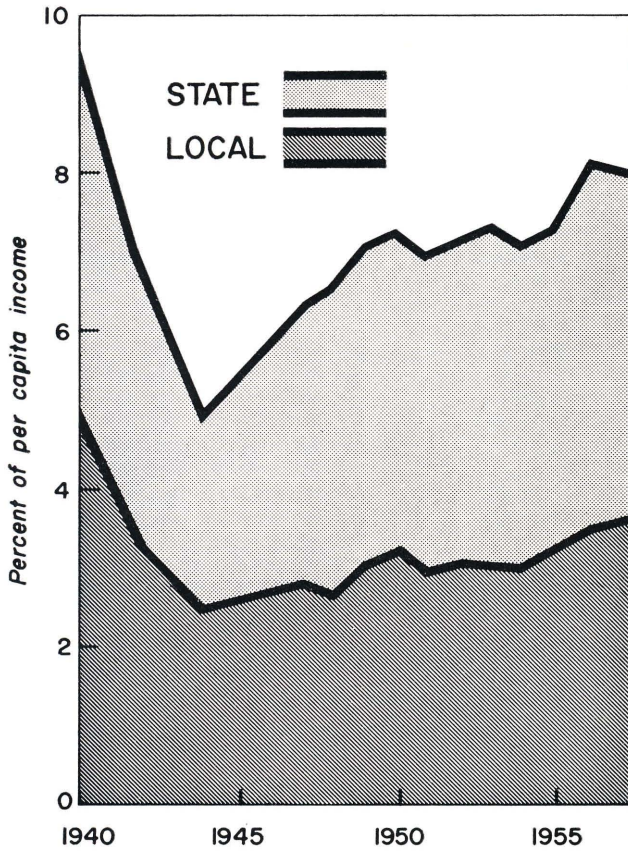


Fig. 2. State and local taxes as percentages of average per capita income of Michigan residents, 1940-1957.

tabulation shows that the average property tax paid per capita and the average amount of all state and local taxes paid per capita were slightly higher in Michigan than in the nation as a whole. Michigan ranked twenty-first among the 48 states in amount of property taxes paid per capita and seventeenth in total state and local taxes paid per capita.

This higher than average tax burden can be attributed in part to the relatively high per capita incomes (fifth highest state average in the nation) enjoyed by Michigan residents and by their demand for public services commensurate with their ability to pay.

Comparisons of the taxes paid per \$1,000 of resident individual income show that Michigan residents paid less state and local taxes and less property taxes per dollar of resident income in 1953 than the

TABLE 1—Average amounts of state and local taxes and of property taxes per capita, and average state and local taxes and property taxes per \$1,000 of resident individual income for Michigan and selected neighboring states, 1953

Area	Average amount of state and local taxes per capita	Average amount of property taxes per capita	Average amount of state and local taxes per \$1,000 of resident individual income	Average amount of property taxes per \$1,000 of resident individual income
United States.	\$134.22	\$60.19	\$77.27	\$34.65
Michigan.	149.52	65.91	73.09	32.22
New York.	188.06	85.56	86.84	39.51
Pennsylvania	112.95	44.26	62.05	24.31
Ohio.	119.30	56.38	57.91	27.37
Indiana.	132.01	64.79	71.43	35.06
Illinois.	136.66	70.94	64.83	33.65
Wisconsin.	155.29	86.19	91.24	50.64

Source: State and Local Government Revenues in 1953, U. S. Bureau of the Census report G-SS-No. 37 (released Oct. 27, 1954), pp. 14 and 28.

national average. Michigan ranked twenty-eighth among the states in the amount of property taxes paid per \$1,000 of resident individual income and thirty-second in total amount of state and local taxes paid.

Property Tax Trends in Selected Rural and Suburban Areas

The tax trend data described above apply to all of Michigan. In an effort to determine what has happened property tax-wise in our rural and suburban areas, a special study was made of the tax situation in three groups of townships in 1940, 1945, 1950, and 1955, based on data obtained from records of the Michigan State Tax Commission.

The first two of these groups include 41 townships from the northern part of the state while the second includes 52 townships from southern Michigan.⁷ These two groups have no cities or villages and may be regarded as primarily agricultural areas. The third group consists of 50 townships from areas surrounding the larger cities of the state.⁸ These townships include some farm land but are classified as "urbanized" in this report because of the large areas that have shifted to urban and suburban uses.

⁷All the townships in the northern group are located north of the southern boundaries of Oceana, Newaygo, Mecosta, Clare, Gladwin, and Arenac counties. The townships included in these two groups were also included in an earlier study of tax trends in Michigan townships. Cline, Denzel C., *1940 Michigan Tax Trends As Related to Agriculture*, Mich. Agr. Expt. Sta. Spec. Bul. 301.

⁸Townships near the following cities were included: Ann Arbor, Battle Creek, Bay City, Benton Harbor, St. Joseph, Detroit, Flint, Grand Rapids, Jackson, Lansing, Kalamazoo, Muskegon, Pontiac, Port Huron, and Saginaw.

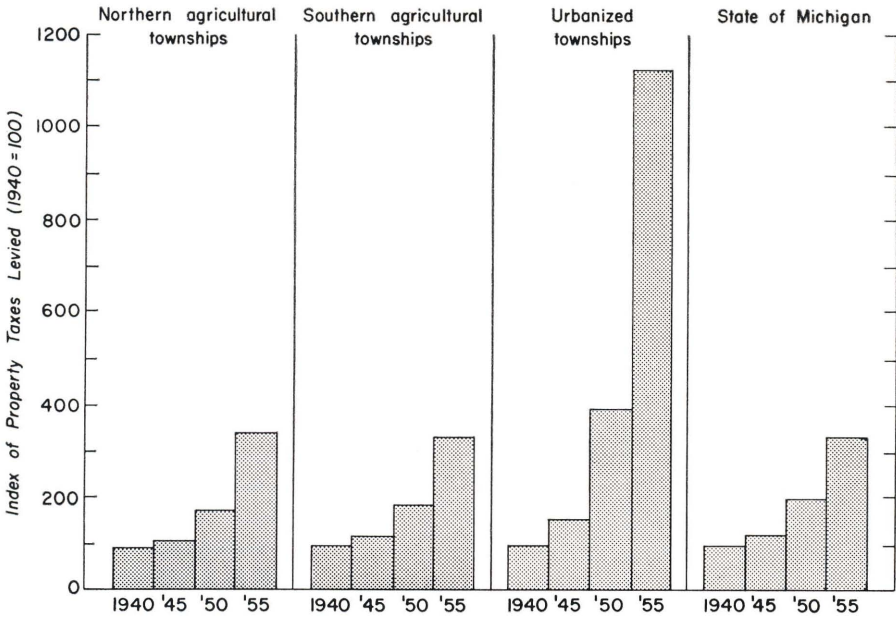


Fig. 3. Indexes of property taxes levied in selected townships and in the state of Michigan, 1940-1955, (1940=100).

Total property tax levies increased in all of the sample areas in each of the 5-year periods from 1940 to 1955, the largest increases coming between 1950 and 1955 (Table 2 and Fig. 3). The 1955 taxes in the agricultural townships were more than three times as high as they were in 1940. Total taxes for the state showed a comparable increase. Much greater increases occurred in the urbanized townships, where 1955 taxes were more than eleven times as high as in 1940 and almost three times as high as in 1950.

What caused this increase in taxes? Part of the increase resulted

TABLE 2—Indexes of total property taxes levied in 143 townships and in the state of Michigan, selected years, 1940-1955 (1940 = 100)

Year	93 Agricultural townships		50 Urbanized townships	State of Michigan
	41 Northern	52 Southern		
1940.....	100	100	100	100
1945.....	114	121	159	123
1950.....	180	186	397	205
1955.....	344	333	1130	338

TABLE 3—Indexes of total property taxes levied in 143 agricultural and urbanized townships, and in the state of Michigan, 1940-55. Deflated by index of consumer prices to show trends in terms of 1940 dollar values, (1940 = 100)

Year	93 Agricultural townships		50 Urbanized townships	State of Michigan
	41 Northern townships	52 Southern townships		
1940.....	100	100	100	100
1945.....	89	94	124	96
1950.....	107	111	236	122
1955.....	180	174	590	176

from the rise in the general price level during the period under study. When allowances are made for the near doubling of the national index of consumer prices between 1940 and 1955, the property tax trend picture changes considerably (Fig. 3). Measured in terms of 1940 dollars, taxes were 1.8 times as high in the agricultural townships and in the state as a whole in 1955 as in 1940, while taxes in the urbanized townships went up nearly 6 times.

A second cause of the tax growth was the addition of new property to the tax rolls. This was especially true in the urbanized townships. The tremendous increase in taxes levied in these townships gives some indication of the rapidity of expansion in residential and commercial developments since 1940. Population increased 73 per cent between 1940 and 1950 in these townships, compared with a 21 per cent increase for the state.

Meanwhile, population increased only 6 per cent in the southern agricultural townships while it decreased in the 41 northern agricultural townships. Population data are not available by townships for 1955, but it appears that the urbanized townships have continued with their rapid rate of growth since 1950 while relatively small changes in population numbers have occurred in the agricultural townships.

Increased demand for services was also an important factor associated with rising taxes. The need for new and improved roads and schools are examples of the expanded services in all of the sample areas. Property taxes could be lower if local communities were willing to sacrifice paved roads and streets, sewers, police and fire protection, and higher educational standards.

Property tax levies are a product of (a) the valuations placed on

properties and (b) the tax rate. Both of these factors must be considered in our discussion of the causes for tax increases. We shall consider the changes in valuations first.

Increases in Valuation, 1940-1955

Property assessment values are determined three and sometimes four different times in the taxation process. The first assessment value is determined by the local assessor. This valuation may be substantiated or changed by the local board of review if the taxpayer protests his assessment. A second valuation figure involving all the taxable properties in the assessment district is determined by the county board of equalization. Still another equalized value involving the taxable properties in each county is determined by the state board of equalization.

Local assessed valuations increased 47 percent in the southern agricultural townships between 1940 and 1955 (Table 4 and Fig. 4). During this same period, they went up 124 and 123 percent in the state as a whole and in the northern townships, respectively, while they went up 337 percent in the urbanized townships.

There was also a significant change between 1940 and 1955 in the

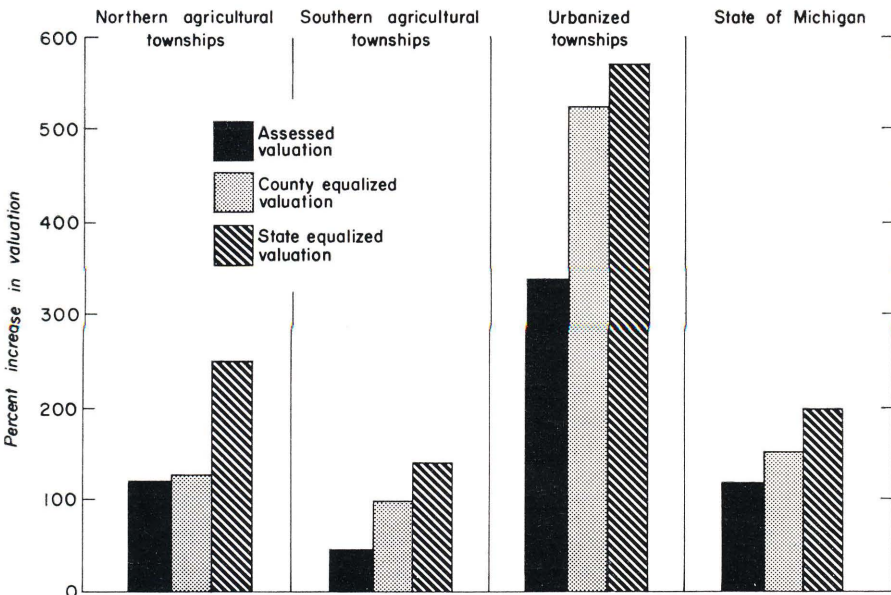


Fig. 4. Percentage of increase in assessed, county equalized and state equalized valuations in selected areas, Michigan, 1940-1955.

TABLE 4—Percentage of increase in local, county equalized, and state equalized valuations in selected townships and in Michigan, 1940-55

Year	Indexes of valuation (1940 = 100) in:											
	Agricultural townships						Urbanized townships			State of Michigan		
	Northern			Southern			As-sessed	County Equal.	State Equal.	As-sessed	County Equal.	State Equal.
	As-sessed	County Equal.	State Equal.	As-sessed	County Equal.	State Equal.						
1940	100	100	100	100	100	100	100	100	100	100	100	100
1945	107	110	138	106	113	122	148	172	194	119	124	130
1950	146	171	233	125	152	189	230	293	341	165	180	206
1955	223	227	348	147	202	241	439	626	676	224	256	303

TABLE 5—Percentage of assessed valuation represented by real and personal property in selected Michigan townships, 1940 and 1955

	Agricultural townships				Urbanized townships		State of Michigan	
	Northern		Southern		1940	1955	1940	1955
	1940	1955	1940	1955				
Real estate	96.0	84.2	95.0	86.5	84.7	72.9	80.6	70.0
Personal property	4.0	15.8	5.0	13.5	15.3	27.1	19.4	30.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

relative importance of real estate and personal property as portions of the total assessed value (Table 5). Personal property accounted for more than a fourth of the total assessed valuation in the urbanized townships in 1955, compared with only 15 percent in 1940.

Increases in the importance of personal property were even greater on a percentage basis in the agricultural townships, although personal property still represents a small proportion of their total valuation. For the state as a whole, the proportion represented by personal property was higher than any of the other areas in 1940 as well as in 1955. This is due to the high proportion of personal property in the cities.

This increase in the relative importance of personal property as a part of the total assessed valuation has taken place in spite of a change in the general property tax law which increased exemptions for household property from \$1,000 to \$5,000. Most of this increase has resulted from the use of more careful assessment procedures and

from a greater relative increase in the value of personal property as compared to increases in real estate values.

Increased assessed valuations have resulted from (a) the addition of new properties to the tax rolls and (b) some raising of the values of properties already on the rolls. It was impossible to separate the effect of these two factors in the data included in this study. However, much of the increase in valuation in the urbanized townships is due to the large number of new homes and business establishments built in these areas. On the other hand, the bulk of the increase in valuation in the agricultural townships is the result of higher valuations on farm land, buildings, livestock, and equipment, much of which has been on the tax rolls for many years.

The relationship between the local assessed and county equalized valuations has changed considerably since 1940 (Fig. 4). Local assessed valuations have risen rapidly, but have not kept pace except in the northern townships with the upward trend in county equalized values. There has been some tendency in the northern counties for the county boards of equalization to "equalize as assessed," (i.e., to accept the assessor's valuations without change). Of the 26 counties equalized as assessed in 1955, all but five were in the northern part of the state.

In the southern townships, the county equalized valuations increased 101 percent between 1940 and 1950 as compared with a 47 percent increase in local assessed values. A comparable trend may be noted in the urbanized townships, where the county equalized valuations increased 526 percent, while local assessed valuations increased 339 percent.

The state equalization process has brought another important increase in property valuations, particularly in the northern townships. As Table 4 indicates, the state equalized valuation for the northern townships in 1955 was $3\frac{1}{2}$ times that of 1940, while the county equalized values were up only about $2\frac{1}{4}$ times.

The difference between county and state equalized figures was less in the southern and in the urbanized townships. For the state as a whole, the state equalized values had increased three-fold while the county equalized values were about $2\frac{1}{2}$ times the 1940 level in 1955.

Much of our emphasis with assessment valuations in Michigan has shifted since 1940 from the local assessed values to the county equalized and more recently to the state equalized values. The 15-mill amendment to the state constitution, which limits the maximum

tax rate to 1½ percent of the value of property, was originally interpreted to apply to the rates based on local assessed values.⁹ County equalization was used to correct inequities among assessing districts within the county, and state equalization was used mainly in determining the amount of state aid to be distributed to the schools.

In 1944, the Michigan Supreme Court decided that the maximum rate should be based on the county equalized valuation.¹⁰ This interpretation enlarged the tax base of the many townships and cities in counties where the county boards of equalization were using higher valuation levels than the local assessors.

A more important change followed in 1954, when the state Supreme Court ruled that the 15-mill limitation should be based on valuation as equalized by the State Board of Equalization.¹¹ The effect has been to enlarge the tax base because the state equalized valuations are almost invariably higher than the county equalized figures.

In 1955 the State Board of Equalization added more than \$2 billion to the county equalized valuations. The state equalized value figures were more than double those determined by the county boards in seven counties and thus permitted a considerable increase in amounts of tax revenue that could be raised without going over the 15-mill limit. This shift to the use of state equalized values helps to explain the 21 percent increase in farm real estate taxes in Michigan between 1954 and 1955.

The emphasis now given to state equalization suggests questions regarding the relationship of state equalized value to actual cash values. The State Board of Equalization is charged with the responsibility of adjusting its equalized valuation to the true cash or current market values of property. Rapidly rising price levels during the postwar period, however, have made it difficult to carry out these adjustments.¹² In 1946 the State Tax Commission, acting on the assumption that property values would decline to pre-war levels, recommended that the state equalized valuation be set at 80 percent

⁹*Constitution of the State of Michigan*, Article X, Section 21.

¹⁰In the case of *St. Ignace City Treasurer vs. Mackinac County Treasurer*, 310 Michigan 108, 1944, the court decided that the term "assessed valuation" in Section 21, Article X, means the local assessment as approved or changed and corrected through the statutory process of county and state equalization.

¹¹In the case of *Pittsfield School District vs. Washtenaw County Board of Supervisors*, 341 Michigan 388, 1954, it was held that the term "assessed valuation" means the value as fixed by the State Board of Equalization.

¹²The effect of rising price levels on farm real estate values can be seen from the indexes of land value published by the U. S. Department of Agriculture. In Michigan, the index rose from 46 in 1940 to 133 in 1955. This means that values per acre in 1955 were 2.89 times as high as in 1940. In the sample areas of this study, state equalized valuations in 1955 were 2.41 times the 1940 valuations in the southern agricultural townships and 3.48 times the 1940 valuations in the northern agricultural townships.

of the 1941 level of cash value. This value was below the total county equalized value for the state, and in 1947 the state equalized valuation was raised to 90 percent of the 1941 level.

Additional increases in 1949 and 1953 brought the state equalized valuation to 110 percent of 1941 value. In 1957 the state equalized figure was increased by 5.86 percent to 116 percent of the 1941 level. This brought the state-equalized figure up to approximately 50 percent of 1957 current market values.

The periodic increases mentioned above apply to all properties in each county. In addition to these overall increases, the State Tax Commission makes detailed county studies that lead to periodic adjustments in the equalized valuations of the counties studied. These studies, which are carried out in several counties each year, involve field appraisals of samples of the various classes of property found in each assessment district, plus consideration of the sales prices of properties exchanged in recent bona fide sales transactions.

Sizable adjustments in the state equalized valuations have resulted from some of the studies. Muskegon County's valuation, for example, was raised from \$229,400,000 in 1952 to \$308,100,000 in 1953, an increase of 34 percent. More recently, the Genesee County valuation was raised from \$588,150,000 in 1955 to \$805,030,900 in 1956, an increase of 44 percent. Most of the adjustments resulting from the Tax Commission studies have been much smaller.

The low level of state equalized valuation in relation to actual cash or market values provides some protection against a drastic decrease in tax revenues in the event of a collapse in property values. Property values could decrease greatly and still remain above the state equalized valuation. On the other hand, the property tax base of the state could have been doubled in 1957 had the state equalized valuation been based on the full current cash value of the taxable properties of the state.

Changes in Tax Rates

Changes in valuation alone are only a partial measure of changes in the tax burden. To complete the picture it is necessary to consider the changes in the tax rate per unit of a standard value. Comparisons of tax rates per dollar of assessed valuation, frequently have little meaning because of the different levels of cash value at which different assessment districts are assessed.

Rates per unit of county equalized value are subject to the same

TABLE 6—Tax rates in selected areas of Michigan, selected years, 1940-55

Year	Agricultural townships						Urbanized townships			State of Michigan		
	Northern			Southern								
	Rate per dollar of:			Rate per dollar of:			Rate per dollar of:			Rate per dollar of:		
	As- sessed Valua- tion	County Equal. Val.	State Equal. Val.	As- sessed Valua- tion	County Equal. Val.	State Equal. Val.	As- sessed Valua- tion	County Equal. Val.	State Equal. Val.	As- sessed Valua- tion	County Equal. Val.	State Equal. Val.
(mills)	(mills)	(mills)	(mills)	(mills)	(mills)	(mills)	(mills)	(mills)	(mills)	(mills)	(mills)	(mills)
1940	13.92	14.28	15.02	11.39	11.73	11.15	17.17	17.79	17.75	27.67	27.66	28.82
1945	14.77	14.79	12.41	12.98	12.55	11.12	18.42	16.45	14.54	28.56	27.92	27.35
1950	17.15	15.02	11.63	16.97	14.30	10.95	28.44	24.14	20.68	34.42	32.00	28.71
1955	21.44	21.65	14.86	25.78	19.30	15.41	44.20	32.12	29.68	41.82	37.14	32.69

criticism when districts in different counties are compared. The rates per dollar of state equalized valuation should reflect the true differences in tax loads per unit of value in assessment districts in different parts of the state provided that: (a) county equalization eliminates differences in relative valuation among assessment districts within the county, and (b) state equalization eliminates differences in relative valuation among counties.

Tax rates per dollar of state equalized value showed a smaller increase from 1940 to 1955 in each of the sample areas than the rates per dollar of county equalized valuation (Table 6 and Fig. 5). Likewise, there was a smaller increase in rates based on county equalized valuation than on assessed valuation.

The urbanized townships showed a 67 percent increase in rate per dollar of state equalized valuation from 1940 to 1955, and the average rate in the southern agricultural townships increased 38 percent during the 15-year period. The average rate in the northern agricultural townships, however, was slightly lower in 1955 than in 1940. For the state as a whole, the average rate rose from 28.82 mills to 32.69 mills, an increase of nearly 14 percent.¹³ It should be noted that the average millage rate in both groups of agricultural townships was only about half as high as the average in the urbanized townships. The high tax rates applied in the urbanized townships often constitute a real burden to those remaining farmers who depend upon agriculture for their livelihood.

¹³The average rate for the state is higher than any of the sample areas. This results from the higher (than state average) millage rates applied in most cities. The rate in many urbanized townships is approaching the average for the entire state.

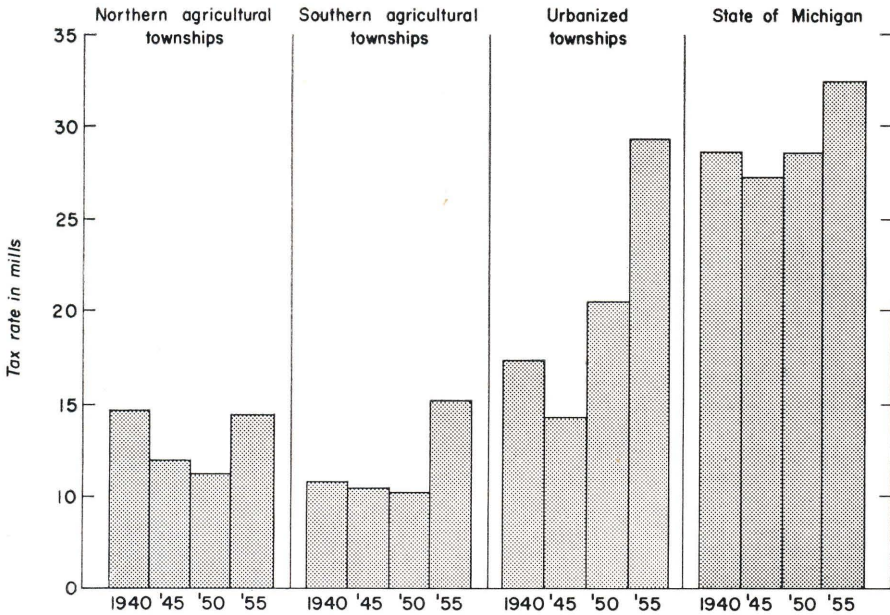


Fig. 5. Tax rates based on state equalized valuation for selected areas, Michigan, 1940-1955.

Changes in Expenditure Patterns of Local Governments

Property taxes as reported in the sample areas are levied by three units of local government: the county, the township, and the school district. County and school taxes increased steadily from 1940 to 1955, while township taxes showed some fluctuations in the agricultural townships.

The relative importance of taxes levied by the three units of government changed considerably from 1940 to 1955. County taxes took

TABLE 7—Relative importance of county, township, and school taxes in selected townships, Michigan, 1940-55

Year	Agricultural townships								Urbanized townships			
	Northern				Southern							
	Percentage of taxes levied by:				Percentage of taxes levied by:				Percentage of taxes levied by:			
	County	Twp.	School	Total	County	Twp.	School	Total	County	Twp.	School	Total
1940	58.0	7.6	34.4	100.0	53.6	7.1	39.3	100.0	32.3	11.8	55.9	100.0
1945	51.1	8.5	40.4	100.0	41.3	7.7	51.0	100.0	26.7	12.7	60.6	100.0
1950	53.5	1.2	45.3	100.0	46.9	2.5	50.6	100.0	24.9	6.0	69.1	100.0
1955	38.0	2.5	59.5	100.0	35.4	2.4	62.2	100.0	19.2	9.9	70.9	100.0

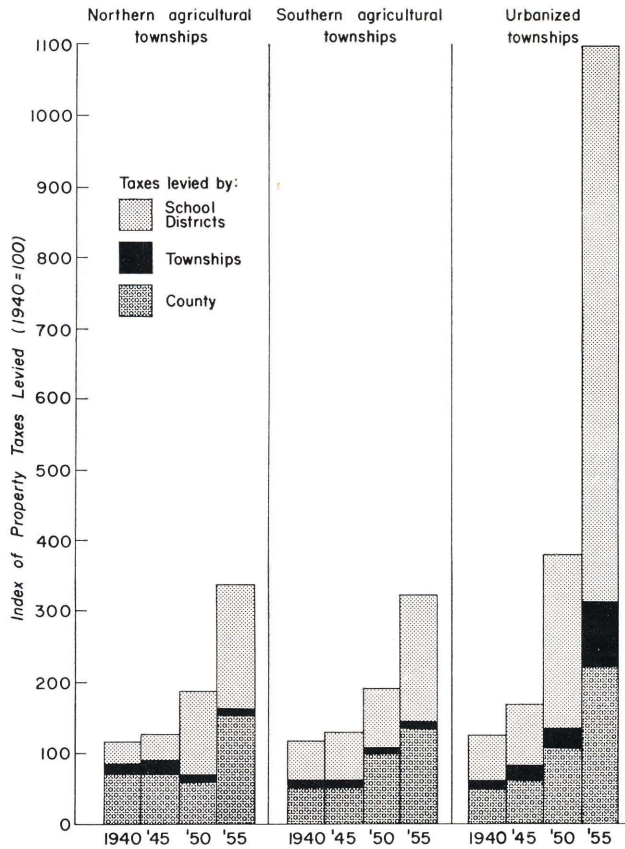


Fig. 6. Relative importance of county, township, and school district taxes in selected townships of Michigan, 1940-1955.

more than half of the total in the agricultural townships in 1940, but by 1955 they accounted for less than two-fifths of the tax load (Table 7 and Fig. 6).

County taxes took one-third of the property tax revenues in 1940 in the urbanized townships, and less than one-fifth in 1955. Township taxes account for a relatively minor portion of the tax burden in the agricultural townships. Their share in 1955 was only about one-third percentage-wise of what it was in 1940. In the urbanized areas, township taxes were somewhat more important. They accounted for more than one-tenth of the total in 1940 and 1945, decreasing sharply in 1950, and increasing again to almost ten percent of the total in 1955.

School district taxes have shown a steady increase in importance since 1940 in all of the sample areas. In the northern townships, schools took about 60 cents of each property tax dollar in 1955, compared with only 34 cents in 1940. In the southern townships, they accounted for 62 percent of all property taxes in 1955, compared with 39 percent in 1940. And, in the urbanized townships, they took 71 percent of the average property tax dollar in 1955 as compared with 56 percent in 1940.

School districts took a consistently larger share of the total property tax in the urbanized townships than in the agricultural townships. But even in the agricultural townships, there was a sharp increase in the importance of school taxes between 1950 to 1955. Considering the state as a whole, schools received 46 percent of the total property taxes in 1955 compared with only 30 percent in 1940.

School tax levies vary considerably from district to district. Some 700 districts levied 5 mills or less on the state equalized valuation in 1955-56, while another 720 districts levied more than 15 mills. School building programs have forced high rates in some districts, while others secure more revenue than they really need when they use the minimum tax levy of 5 mills now required if they are to qualify for state aid.¹⁴

Impact of Rising Property Taxes on Farmers

The data available did not permit a comparison of the taxes on the farm properties in the sample areas with those on non-farm properties. Some general data are available, however, concerning the property taxes paid by Michigan farmers. Taxes on farm land reached an average of \$1.54 an acre in 1957. This was an all-time high rate per acre and almost 3½ times as high as the average acreage rate for 1940 (Table 8).

Farmers in other states have also been plagued with rising taxes per acre in recent years, but Michigan has experienced a larger percentage than any neighboring state except Illinois. This increase in Michigan may be credited to the high rate of expansion of urban areas and also to the fact that in 1940 farm property taxes were low in Michigan relative to those of other states. Between 1930 and 1935, the average acreage tax rate declined further in Michigan than in any neighboring state. It then remained relatively stable until 1940 at a time when taxes were increasing in the other states.

¹⁴Some county boards of supervisors have asked that the minimum rate for state aid be lowered from five to 3½ mills.

TABLE 8—Taxes levied on farm real estate: amounts per acre and per \$100 of full value, East North Central states, selected years, 1915-1957

		1915	1920	1925	1930	1935	1940	1945	1950	1955	1956	1957
Amount per acre	Michigan....	\$.63	\$1.23	\$1.26	\$1.34	\$.46	\$.46	\$.52	\$.77	\$1.22	\$1.32	\$1.54
	Ohio.....	.60	1.07	1.31	1.36	.65	.69	.74	1.09	1.60	1.70	1.82
	Indiana.....	.66	1.26	1.40	1.47	.69	.76	.81	1.35	1.75	1.85	1.96
	Illinois.....	.52	.99	1.15	1.16	.79	.98	1.10	2.08	2.97	3.17	3.51
	Wisconsin...	.49	1.04	.96	1.05	.75	.78	.96	1.57	1.93	1.99	2.11
Amount per \$100 of full value	Michigan....	1.14	1.62	1.81	2.08	.97	.90	.61	.69	.84	.85	.95
	Ohio.....	.74	1.11	1.53	1.89	1.05	1.01	.64	.67	.77	.77	.78
	Indiana.....	.75	1.08	1.73	2.27	1.19	1.18	.70	.83	.84	.83	.84
	Illinois.....	.42	.55	.88	1.20	1.06	1.18	.82	1.02	1.23	1.22	1.28
	Wisconsin...	.71	1.04	1.14	1.49	1.37	1.54	1.30	1.58	1.82	1.74	1.76

Source: U. S. D. A. Stat. Bul. 189. Taxes levied on farm property and methods of estimating them. Washington, August 1956, and ARS 43-79. Taxes levied on farm real estate in 1957, Washington, August 1958.

A second measure of the property tax burden on farmers is the tax per unit of value of farm land. The tax per \$100 of full value in Michigan, as in Ohio and Indiana, was lower in 1956 than in 1940, while taxes in Illinois and Wisconsin were slightly above the 1940 level when measured in terms of value (Table 8). These estimates of the tax per unit of value are based on all farm land in the respective states.

A recent study by Beer and Barlowe compared property taxes with farm real estate values on 544 Michigan farms on which farm account records were available from 1939 to 1956.¹⁵ These farms are mainly commercial farms and are generally above average in size and resources. They are concentrated in the better farming areas, but all parts of the state are represented.

The study showed that farm property taxes represented about 1 percent of farm value in 1939 and 1940. The ratio of taxes to value dropped to a low of .69 percent of value in 1947 and reached a high of 1.15 percent in 1956 (Fig. 7).

Tax per unit of value is not a fully adequate measure of the burden of property taxes on farmers. Farmers are usually far more conscious of the ratio between their taxes and their current net incomes than of that between taxes and property values. After all, taxes must be paid out of income. This situation makes the relation of taxes to income a prime measure of the true impact of property taxes on farmers.

A comparison of taxes levied on farm real estate with farmers'

¹⁵Beer, C. L. and Raleigh Barlowe. Impact of property taxes on Michigan Farmers, 1939-1956. Mich. Agr. Expt. Sta. Quart. Bul., East Lansing, 40(1):172-180).

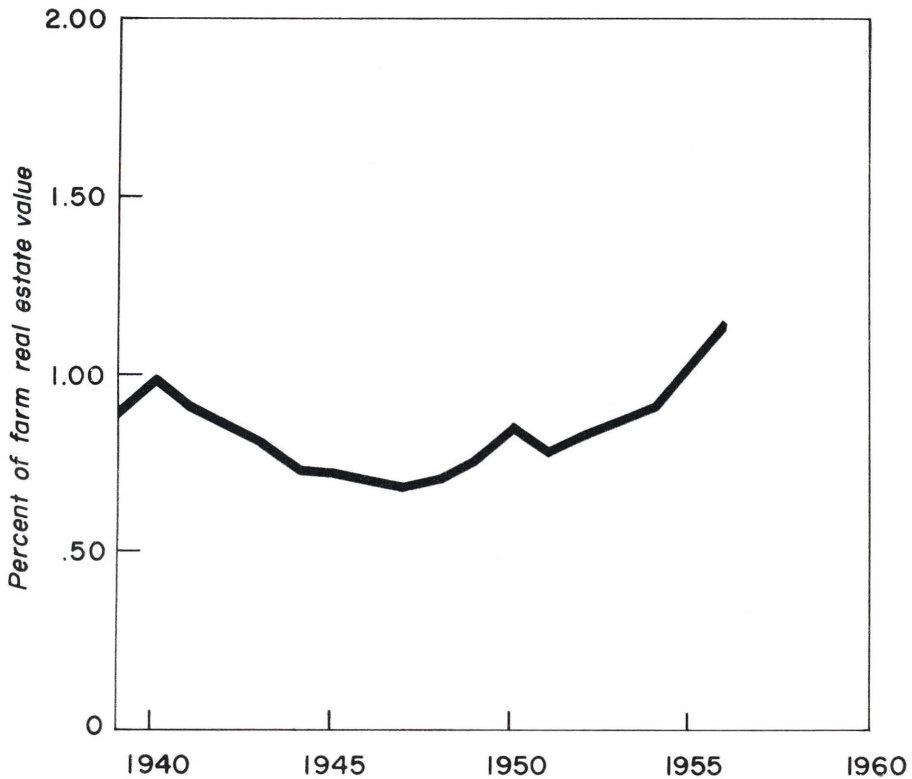


Fig. 7. Property taxes paid as a percentage of farm real estate value, 544 Michigan farm account record cooperators, 1939-56.

realized net income (i.e., net cash income from operation of farms plus value of products consumed in the home and rental value of farm dwellings) is shown in Table 9. This comparison tends to overestimate the impact of real estate taxes on farmers, because not all farm real estate is owned by farmers. However, it does indicate the changing impact of property taxes on Michigan farmers since 1945. Farm real estate taxes represented only 2.6 percent of the average farmer's net income before payment of the taxes in 1945 and then gradually rose to a high of 8.0 percent in 1957.

The data in Table 9 are limited to taxes levied on farm real estate. A higher tax-take naturally results when consideration is given to the personal property taxes farmers pay along with their taxes on real estate.

If we assume that personal property accounted for 14 percent of the assessed valuation of farm property in Michigan in 1955, taxes on

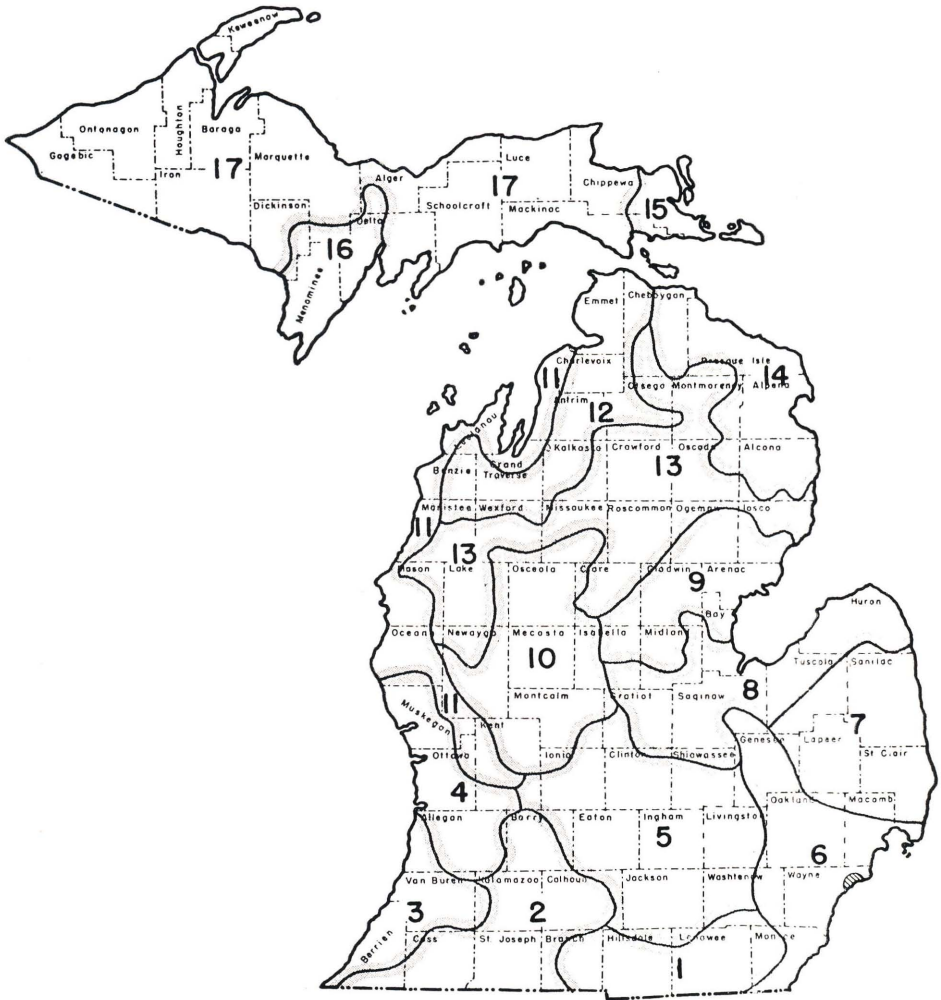


Fig. 8. Types of Farming Areas in Michigan.

all farm property accounted for 9.3 percent of farmers' realized net income before taxes compared with 8.0 percent of income when only farm real estate taxes are considered.¹⁶

The study of property taxes on 544 Michigan farms for which farm account records were available shows similar increases in the proportion of the average farmer's net income which is used to pay property taxes.¹⁷ (Table 10 and Fig. 9). Property taxes represented 5 percent

¹⁶Personal property in 1955 actually accounted for 15.8 percent of assessed valuation in the sample of northern agricultural townships and 13.5 percent in the southern agricultural townships discussed above (Table 4).

¹⁷Beer and Barlowe, *op. cit.*, pp. 178-179.

TABLE 9—Farmers' realized net farm income and taxes levied on farm real estate, Michigan, selected years, 1945-57 (a)

Year	Farmers' realized net income		Taxes levied on farm real estate (mil. dol.)	Farm real estate taxes as a percentage of farmers' realized net income	
	Before payment of property taxes (mil. dol.)	After payment of property taxes (mil. dol.)		Before taxes	After taxes
1945....	371.1	361.5	9.6	2.6	2.7
1950....	323.0	309.9	13.1	4.1	4.2
1955....	286.1	266.1	20.0	7.0	7.5
1956....	297.6	275.9	21.7	7.3	7.9
1957....	316.6	291.4	25.2	8.0	8.6

(a) The following items are included in realized net farm income: receipts from farm marketings, government payments, value of farm-raised products consumed in the home and rental value of farm dwellings. Production expenses are subtracted from these items to give realized net income. No allowance is made for changes in inventory.

Sources: ARS 43-79, Taxes levied on farm real estate in 1957. U. S. D. A., Washington, D. C. Farm Income Situation Reports of the U. S. D. A. for July 1946, and September 1958.

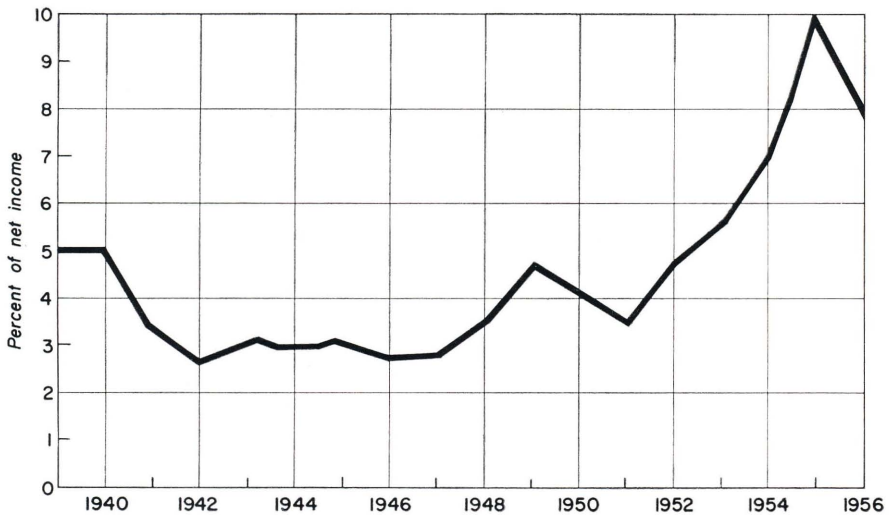


Fig. 9. Property taxes as a percentage of net farm income before payment of property taxes, 544 Michigan farm account record cooperators, 1939-56.

TABLE 10—Property tax paid as a percentage of net farm income before payment of property taxes on farm account record-keeping farms in Michigan, state average and averages for selected type-of-farming areas, 1939-56.

Year	Type-of-farming area(a)										
	All areas	1	2	3 and 11	4	5	6 and 7	8	9, 12, and 14	10	15, 16, and 17
1939.....	5.0	5.6	6.2	5.6	4.9	5.2	4.0	3.9	3.1	5.1	4.5
1940.....	5.0	5.5	6.9	4.1	4.7	4.9	4.6	4.7	5.3	4.9	4.2
1941.....	3.3	3.4	4.5	4.0	3.8	3.4	3.0	2.7	3.2	3.3	2.7
1942.....	2.6	2.6	3.1	2.4	3.1	2.7	2.3	2.5	2.7	2.5	2.5
1943.....	3.0	3.5	2.9	1.8	3.1	3.3	3.6	3.0	3.3	3.1	2.7
1944.....	2.9	3.4	4.5	1.7	3.4	3.3	3.2	2.7	2.5	2.5	2.3
1945.....	3.0	2.9	3.4	3.1	3.2	3.1	3.5	2.8	2.9	2.8	2.5
1946.....	2.7	2.5	3.4	1.6	3.1	3.4	3.9	2.5	2.3	2.5	1.8
1947.....	2.8	3.0	2.9	4.3	2.7	2.9	2.9	2.7	2.4	2.6	2.0
1948.....	3.5	3.2	4.5	4.8	3.5	4.2	3.4	3.3	2.7	2.5	2.2
1949.....	4.7	5.4	5.1	5.9	4.9	4.8	4.2	3.9	4.5	4.0	3.8
1950.....	4.1	3.4	4.2	3.7	4.4	4.4	5.4	3.3	4.0	3.4	3.1
1951.....	3.4	3.3	3.5	4.3	4.1	3.4	4.0	3.1	2.9	3.0	2.5
1952.....	4.7	6.0	5.6	3.7	4.8	4.8	5.2	4.2	3.8	3.6	2.9
1953.....	5.5	5.9	6.9	3.5	6.1	5.7	7.7	4.8	4.7	4.9	4.4
1954.....	7.0	6.1	9.9	5.0	8.8	6.7	11.0	6.3	6.1	6.8	6.0
1955.....	9.9	9.9	13.3	8.3	17.0	11.3	10.9	6.7	7.3	10.1	6.0
1956.....	7.8	9.3	7.7	11.9	7.7	8.3	8.5	6.0	5.4	6.8	6.1
No. of farms..	544	59	51	29	27	131	52	42	68	36	49

Source: Beer and Barlowe, *op. cit.*, pp. 178-179.

(a) See Fig. 8 for names and locations of type-of-farming areas.

of the average net income of all farms in the sample in 1939 and 1940.¹⁸ The proportion dropped to a low of 2.6 percent in 1942, as farm incomes rose during World War II and property taxes remained fairly stable.

Taxes increased in the postwar period. By 1949 the average farmer was paying 4.7 percent of his net income in property taxes. The Korean crisis boosted farm income enough to cause a decrease in the proportion of income going for taxes in 1950 and 1951. Between 1952 and 1955, however, farm incomes dropped while property taxes steadily increased. This situation brought the average farmer's property tax up to 9.9 percent of his net income before payment of the tax in 1955.

The percentage of income represented by property taxes varied widely among the different type-of-farming areas because of variations in yields and prices of farm commodities as well as differences in taxes levied. In general, farmers in the northern areas have paid a slightly

¹⁸"Net income" as used in this study includes net cash income plus changes in inventory, minus depreciation and value of unpaid family labor. Thus it includes interest on investment and labor income of the operator. No allowance is made for value of farm products used in the household or the rental value of the farm dwelling. "Net income" is, therefore, lower than "realized net income" defined in Table 9.

lower proportion of income as property tax than those in the southern counties.

How does Michigan compare with other states in the proportion of farm income paid as property taxes? Professor Cline¹⁹ estimates that the average American farmer paid about 6½ percent of his total net income as property taxes in 1941. The proportion dropped to 4 percent in 1943 and fluctuated around that point until 1949, when it rose to 6 percent.

This trend was reversed in 1951, but a steady increase after 1951 had farmers paying slightly over 9 percent of their income as property taxes in 1954. Owners of nonfarm properties, on the other hand, paid only about 3 percent of their net incomes as property taxes during the 1943-1954 period.

The combination of a rising level of taxes and a low average level of farm income has given rise to serious problems for some farmers. There are two areas in Michigan where these problems are acute. One area involves the zone immediately surrounding our expanding cities while the second involves farm lands of relatively low productive potential.

We have seen how taxes have risen in the urbanized townships as a result of higher valuations and higher tax rates (Tables 3 and 5). Farmers in these areas often find themselves paying more than their fair share of the cost of schools and other community improvements. This inequity arises from two sources.

First, there is often a delay of a year or more in getting newly constructed homes and commercial properties onto the tax rolls—a situation that often causes farmers to bear a major share of the expenses in the early years of suburban expansion. Second, there is some tendency for township supervisors in partially suburbanized townships to assess farm properties at higher levels relative to current market value than non-farm properties.

A recent comparison of sale values with assessed values in Ingham County shows that farm properties were assessed at higher levels of value than suburban properties in each of the six townships of the county with comparable samples of both kinds of property.²⁰ Supervisors have often tended to underestimate the value of residential holdings located on small acreages as compared with farm properties which cover many acres.

¹⁹Cline, D. C., Evidences of farmers' burden. *Farm Policy Forum*, Vol. 8, No. 3, Iowa State Col. Press, Ames, pp. 12-15.

²⁰Barlowe, Raleigh and O. A. Limberger 1956. Relationship of tax assessed valuations to the sale values of real properties, Ingham County, Michigan, 1950-53. Mich. Agr. Expt. Sta., Quart. Bul. 39(1):157-158. East Lansing.

Farm property taxes are often high in suburban and urbanized townships both because of the high tax rates applied to finance expansion of public services in these areas and because of the higher value assessments associated with the ripening of the land for suburban uses. Assessing farm land in these areas is becoming an increasingly difficult problem as the suburbanization movement continues.

High assessed values may be justified by an existing or potential market for subdivision sites. The value of land for this purpose far exceeds its value for farming under present conditions in most parts of Michigan. When a market of this type exists, higher assessments are often justified, and they may prompt the shifting of sites from agriculture to uses offering higher market prices.

Questions may be raised, however, concerning the propriety of assessing farm land according to its value for subdivision purposes. The value of land for agricultural use does not necessarily increase because of its nearness to suburban areas. Basing the assessed valuation of farm land on its potential value as subdivided property can force owners out of farming before a market for the land (as subdivisions) actually exists. Sometimes land is removed from agriculture that might better be left in farms.

Rising property taxes have also given rise to serious problems in some areas containing farm lands of low productive potential. A recent study of assessed values in northern Michigan indicates that this land is often assessed at a higher proportion of its sale value than the more productive farm land in the same area.²¹

Over-assessment of these less productive lands could lead to widespread tax delinquency in the event of a serious and prolonged recession. Some cutover land has value for recreation as well as timber production, but it should be assessed in proportion to its market value for these purposes.

Although some studies of assessment procedure have shown tendencies to over-assess properties of low value, all studies indicate a wide variation among assessed valuations placed on properties of equal market value. These inequalities in assessment affect nonfarm as well as farm properties.²² But they are not peculiar to the state of Michigan.

Similar errors have been found in assessment procedure in other

²¹Unpublished data from a comparison of sale values with assessed values in Arenac County. None of the land in the study was assessed at less than \$10 per acre, while sale values of some tracts were as low as \$2 per acre.

²²Continuing studies of the Michigan Tax Commission consistently show wide variations in the ratio of assessed to appraised values.

states. When property taxes were low, these errors were of little consequence to most property owners. With the tax increases of recent years, however, they have taken on a new importance.

Thus far, this discussion of the impact of property taxes has dealt with past and present problems. One additional aspect of the property tax situation with important implications for the future also merits consideration. This is the practice of financing school building programs and other local improvements by bonds, which commit property owners to fixed tax obligations for long periods of time.

These obligations have put property owners into much the same position they occupied in the late 1920's and early 1930's. These tax commitments can often be met with relative ease if farm incomes rise or remain stable, but they could represent a real hardship in the event of a prolonged period of low income.

Possibilities for Relieving the Tax Burden on Property

It is not the province of this study to recommend changes in tax policy. Moreover, there is no easy solution to the problems that have caused the increases in property taxes. It is obvious to most observers that the property tax has serious shortcomings. As one authority on property taxes has observed:

“Should some prosecuting attorney drag the tax as a culprit before a bar of justice, he would be embarrassed by the abundance of expert evidence against it. No writer of repute, writing on state and local taxation in the United States, has failed to offer his bit of derogatory testimony. No commission appointed to investigate any state tax system, which has had time, means, and inclination to secure the evidence, has failed to recommend the abolition of the tax or measures tending toward fundamental modification.”²³

Nevertheless, the property tax will probably be with us for years to come. There is little likelihood of its repeal or complete replacement by other taxes. Even if this were feasible, there is some doubt as to the desirability of eliminating the property tax.

Property taxes are generally thought to be capitalized—i.e., the value of property is less, by the amount of the capitalized value of the annual tax, than it would be if property taxes did not exist. Consequently, repeal of the tax might lead to higher property values, resulting in a windfall profit to present owners. Moreover, there appears to be no alternative source of revenue readily available, or at least no

²³Jensen, Jens Peter (1931). *Property Taxation in the United States*, Chicago, p. 478.

source that will produce a large and relatively stable amount of revenue with the same ease and low cost of administration as the property tax.

But even though the property tax appears to be a permanent institution, efforts should be made to improve its operation. Better administration of the tax is definitely needed. Variations in assessed values among properties of similar size and quality indicate that some taxpayers receive much more favorable treatment than others. Improvements in the assessment and equalization processes could lead to a more equitable distribution of the property tax burden.

Consideration should also be given to the extent to which we rely upon the property tax. Supplementary sources for local revenues and economies in local government costs are needed to keep property taxes from getting too high.

Increasing expenditures for schools have been the largest single cause of rising taxes in recent years. In as much as these expenditures represent more a service to persons than to property, first emphasis might well be given to the development of new sources of support for our school systems. A broader basis of support for schools would do much to relieve present and future burdens on property owners.

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