

Alternative Use Valuation of Ohio Farmland: Some Techniques and Problems

by

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The 1976 Tax Reform Act has now reached it's 2nd birthday. Parents of children often refer to that age as the "terrible two's" because of the intense curiosity and unpredictable behavior often exhibited. It may be inappropriate to say a tax bill is at the "terrible two's" stage, but I'm sure a lot of people are curious to know how to plan and operate with the new rules and wishing they could predict it's results with more assurance.

In this paper, I want to address some of the issues and techniques involved in using section 2032A - Alternate Use Valuation of Farmland. I do not intend to discuss the legal issues involved in it's application. Rather I want to discuss some of the issues related to determination of the alternate use values. These will be discussed in light of the proposed regulations published in the July 19, 1978 Federal Register.

Section 2032A provides an election for an alternate valuation of real estate based upon farm or other business use of the property. This provision permits a lower Federal estate tax valuation for land used in farming and other businesses, and to encourage the continued use of such property in the family by the surviving family members.

The incentive to utilize 2032A will be great for many farm families, since it can reduce the Federal estate tax valuation as much as \$500,000 and the potential tax savings can be as much as \$350,000. For most estates the tax savings will be much less, but still the sums are substantial enough to cause heirs to look longingly at 2032A. Table 1 is from Atkinson and Harrison's paper [2] showing potential savings from \$24,000 to \$98,000 on AGE's ranging

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from \$500,000 to \$2 million.

Table 1. Federal Estate Tax Before and After §2032A Use Valuation on Selected Amounts of Adjusted Gross Estate with 80% Held as a Farm and Use Valued at 50% of Fair Market Value

Adjusted Gross Estate (AGE)		Federal Estate Tax*				
Before	After	Pre-1977**	1977		After 1980	
			Before	After	Before	After
-Dollars-						
250,000	150,000	10,900	-	-	-	-
500,000	300,000	47,700	40,800	-	23,800	-
750,000	450,000	86,500	83,300	24,800	66,300	7,800
1 mil.	600,000	126,500	125,800	57,800	108,800	40,800
1.5 mil.	1 mil.	212,200	218,300	125,800	201,300	108,800
2 mil.	1.5 mil.	303,500	315,800	218,300	298,800	201,300

* Assumes no post-1976 taxable gifts and the full unified credit is available as an estate tax credit; maximum marital deduction but no state death tax credit.

** The pre-1977 (old) estate tax results are based on a maximum 50 percent of AGI marital deduction and a \$60,000 specific exemption. 1977 results are based on the "Before" AGE since use valuation is a new provision, effective Jan. 1, 1977.

Naturally, there are potential disadvantages with 2032A, as well. The first concern may be the possibility of recapture of the tax savings. But Bravenac and Olsen [4] point out that many estates will be able to choose from among various parcels of property those less likely to trigger recapture. They also emphasize that recapture does not increase the total estate tax due. The recapture tax just represents the repayment of an interest-free loan from the government.

Other items heirs need to consider looking at 2032A are: 1) It may affect your ability to use Section 6166 - 15 year repayment of tax, and 2) It will affect the amount of fresh start basis on pre-1977 purchased property. All of these considerations complicate the equitable and satisfactory closing of farm estates.

Background On Farm Leases, Land Values, and Rents

Much of the pressure for the tax relief such as 2032A resulted from the rapid run up in land values in recent years (Table 2). Ohio land values have risen 13 to 31 percent in each of the last 6 years. In 1972, average land

value in Ohio was \$439 per acre, by 1978 it was \$1263 per acre, nearly triple!

Table 2 - Annual Estimates and Percentage Change of Farm Real Estate Values, Ohio, 1968-78

Year	FARM REAL ESTATE VALUE				Annual Percentage Change (%)
	Land (Mil. \$)	Buildings (Mil. \$)	Total (Mil. \$)	Per Acre (\$)	
1968	4549	1725	6274	364	
1969	4729	1767	6496	378	4
1970	4978	1841	6819	399	6
1971	5147	1875	7022	413	4
1972	5622	2017	7639	439	6
1973	6456	2280	8736	507	16
1974	8002	2782	10784	627	24
1975	8994	3079	12073	718	13
1976	10885	3667	14552	856	21
1977	14228	4717	18945	1121	31
1978	15977	5241	21218	1263	13

Sharply higher prices in the mid-70's sent profits soaring for many farmers. And farmers like to invest in the asset they best understand--land. But only limited amounts of land come up for sale each year (Table 3). Roughly 5% of farms are sold each year. Of these, slightly less than 1% are a result of an estate settlement. Ready cash and limited supplies of land, both strongly contributed to this rapid run-up in land values in the 70's.

Table 3-Farm Title Transfers: Number Per 1000 Farms by Method of Transfer, Ohio, 1969-1978^{1/}

Year	METHOD OF TRANSFER				Total
	Voluntary Sale	Estate Settlement	Foreclosure	Other	
1969	33.0	N.A.	1.5	17.3	51.8
1970	35.7	N.A.	.4	17.1	53.2
1971	24.5	8.7	1.3	7.7	42.2
1972	37.7	9.1	1.4	8.9	57.1
1973	43.3	10.3	.6	6.6	60.7
1974	34.7	10.4	.3	8.6	54.0
1975	30.7	8.1	1.0	8.2	48.1
1976	31.8	8.9	.8	10.0	45.0
1977	42.3	11.4	.6	8.3	62.6
1978	40.0	5.3	1.7	9.2	56.2
Ave. 1971-8	35.6	9.0	1.0	8.4	53.2

^{1/} Year ending March 1, 1969-1975, and February 1, 1976-8.

Table 4- TYPICAL DIVISION BETWEEN LANDLORD AND TENANT OF FACTORS OF PRODUCTION, EXPENSE ITEMS AND INCOME IN THE DIFFERENT METHODS OF RENTING IN OHIO 1/

Factors of Production and of Expense Items	Crop Share Only		Crop Share + Cash Rent for Pasture & bldgs.		Livestock Share		1/3 Share		Cash Rent Only	
	L.	T.	L.	T.	L.	T.	L.	T.	L.	T.
Real Estate	all		all		all		all		all	
Labor		all		all		all		all		all
Management of Operations	part	part	part	part	part	part	part	part		all
Machinery & Power - Crop		all		all		all		all		all
Machinery & Power - Livestock		all		all	part	part		all		all
Livestock				all	1/2	1/2		all		all
Cash for Operation	part	part	part	part	part	part	part	part		all
Purchased Feed		all		all	1/2	1/2	2/3	1/3		all
Home-grown Feed				own	1/2	1/2	2/3	1/3		all
Seed - corn & grain	1/2	1/2	1/2	1/2	1/2	1/2	2/3	1/3		all
Seed - grass seed	1/2	1/2	1/2	1/2	1/2	1/2	all			all
Fertilizer	1/2	1/2	1/2	1/2	1/2	1/2	2/3	1/3		all
Lime ^{2/}	1/2	1/2	1/2	1/2	1/2	1/2	all			all
Chemicals	1/2	1/2	1/2	1/2	1/2	1/2	2/3	1/3		all
Harvesting	1/2	1/2	1/2	1/2	1/2	1/2	2/3	1/3		all
Drying, Hauling to Market	1/2	1/2	1/2	1/2	1/2	1/2	2/3	1/3		all
Fuel & Oil		all		all	1/2	1/2	2/3	1/3		all
Machinery Repair - Crop		all		all		all	2/3	1/3		all
Machinery Repair - Livestock		all		all	part	part	all			all
Feeder Livestock		all		all	1/2	1/2	2/3	1/3		all
Real Estate Repairs & Additions										
Labor for minor items		all		all		all		all		all
Labor for new or major items	all		all		all		all		all	
Materials for repairs	all		all		all		all		all	
Real Estate Tax & Insurance	all		all		all		all		all	
Insurance on Personal Property	part	part	part	part	part	part	2/3	1/3		all
Income Received	1/2 of crop	1/2 of crop	1/2 crop + cash rent	1/2 crop & all ls.	1/2 crop & ls.	1/2 crop & ls.	2/3	1/3	cash rent	all crop & ls.

1/ Local conditions and specific farm lease may be a reason to vary from this typical division.

2/ Maintenance application.

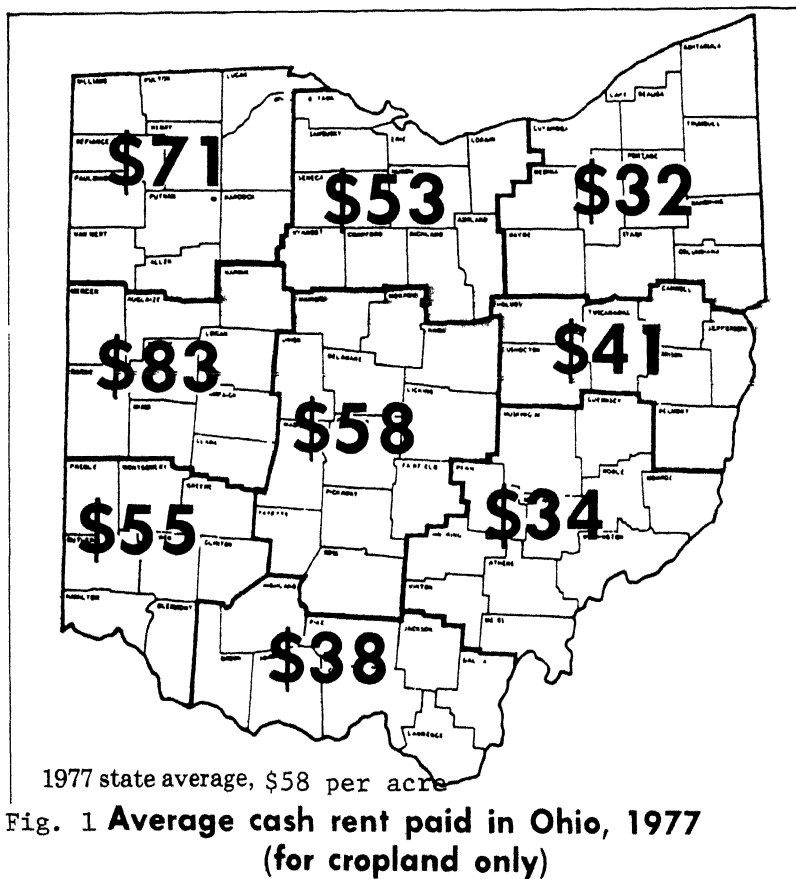
Not everyone can--or wants--to own land. Farming has always been a heavy user of capital, and many farmers are forced, or prefer, to lease land from owners. Leases take many forms, but typical divisions between landlords and tenants for various leases are shown in Table 4. The lease of major interest for Section 2032A is, of course, the cash rent lease. Here the tenant pays a flat fee for the use of the land, then bears all production costs and risk, and receives all profits (or loss) that result. Farm landlords often like cash rent because: 1) It provides an assured level of income, 2) He does not have to pay Self-Employment tax on the income, and 3) He qualifies for full Social Security coverage. Tenants like the managerial freedom the cash lease provides, and windfall profits (when they occur).

Cash rents have also risen dramatically in recent years--from \$24 per acre in 1968, to \$63 per acre in 1978, or about 2 1/2 times (Table 5). But cash rents historically lag behind land values in periods of rapidly rising land prices (Acker, et. al. [1]). Buyers of land speculate on things such as future appreciation, but cash rent for land use must be paid out of current income. This lag in cash rents is obvious from seeing how cash rents have dropped from 5.5 to 6.0 percent of land value in the late 60's and early 70's to 4.5 to 5.0 percent today (Table 5).

Table 5--Annual Estimates for Cropland Only Rentals of Cash Rent, Percentage Change, and Ratio of Rent to Value, Ohio, 1968-78.

Year	CROPLAND ONLY-CASH RENT		
	Rent Per Acre (\$)	Annual Percentage Change (%)	Ratio of Rent to Value (%)
1968	24		5.6
1969	24	0	5.6
1970	25	4	5.8
1971	27	8	6.0
1972	28	4	6.1
1973	29	4	5.7
1974	35	21	5.2
1975	40	14	5.5
1976	48	20	5.1
1977	56	17	4.8
1978	63	13	4.5

How much land in Ohio is cash rented? Unfortunately, such data does not exist. In 1959, 8 percent of all farmland in the Corn Belt was estimated to be cash rented. This figure had risen to 9 percent by 1964. No later estimates have been made, but the figure is very likely over 10 percent today. Cash rent occurs over the entire state of Ohio. However, the number of farms cash rented are probably much greater in western Ohio than eastern Ohio. Data gathered by the Ohio Crop Reporting Board show the variation in average cash rents expected for 1978 (Figure 1). Western and central Ohio show higher rates for cash rent than eastern Ohio. Individual rents vary widely from these averages, of course.



But while cash rentals each year may be more numerous than farms sold, several problems exist. All sales must be recorded, but most cash rents are private transactions. To obtain cash rent data, you first need to find out who is cash renting, and get data from them. Secondly, you need a means to verify that you've received accurate data--especially when going back 5 to 7 years. The problems of getting accurate data over a period of years may be extremely difficult.

2032A (c) (7) Capitalized Net Cash Rent Approach

The 1976 TRA contains a simple formula for valuing farmland under Section 2032A (c) (7):

$$\frac{\text{5 year average cash rent net of land tax}}{\text{5 year average effective interest rate on new FLB loans}} = \frac{\text{Value of property}}{\text{for 2032A purposes}}$$

The issue of determining the annual effective interest rate on new Federal Land Bank (FLB) loans has been clearly resolved. The July 19, 1978 proposed regs give the working rules; including adjustment to the billing rate for required stock ownership. And the actual rates for each FLB district will be published September 25, 1978 in Rev. Ruling 78-363. Thereafter they shall also be available from the District Director of IRS.

The cash rent formula is simple, attractive, and effective in reducing land values. Boehlje and Harl [3] of Iowa State estimate alternate use values will be about 30 to 45% of Fair Market Value of the same land. And the larger declines occur on the higher priced land. Atkinson and Harrison [2] estimate that 2032A values were running 30 to 40% of FMV on Indiana farms. This means the cash rent approach can be very effective in reducing Federal estate values and taxes.

1/ Ohio is in the Louisville Federal Land Bank District. The average annual effective rate to use in Ohio for decedents dying in 1977 is 8.64%, for decedents dying in 1978 it is 8.80%. These rates have already been adjusted for the stock purchase requirement.

However, obtaining 5 years of cash rent data on comparable farms is not necessarily easy. Some areas may have little problem, but for many areas of Ohio, it may prove impossible. The proposed regs appear to be taking a strict approach--it appears necessary to identify nearby tracts of comparable land that have been leased under a cash rent contract for the 5 years prior to decedents death. These must be actual, arms-length transactions, and cannot include cases where there was material participation by the landlord or a farm previously qualified under 2032A. The regs say if you cannot get a sufficient number of comparable cash rents, you can use crop share leases. However, the crop-share lease defined in the proposed regs appears to be just a flexible cash rent lease where payment is made in kind - i.e. instead of \$60 per acre, the landlord accepts the value of 30 bushels of corn, priced at some specified place, date, and grade.

Anticipating problems of finding enough comparable cash rents, another proposal was to use a "synthesis" approach to determining an appropriate cash rent [2, 3, 5, 6]. This method used a combination of comparable cash rents, cash rent series from USDA, and factors such as crop yields on the subject farm and elsewhere, to synthesize an appropriate cash rent. It appears that Boehlje and Harl [3] correctly anticipated that IRS would not allow it, even though the methods proposed are very similar to that needed for an income or rent capitalization procedure which are a part of 2032A (c) (8).

Anticipating the difficulty in finding and verifying cash rent data on comparable farms, Neil Harl of Iowa State University has proposed development of a data bank to identify tracts, acquire cash rent information, arrange to store the data, and assure retrieval of the data as needed [3]. A copy of the proposed 3 part questionnaire is shown as Appendix B of this paper. Briefly the 3 parts of the questionnaire cover,

Part I) Collect basic identifying information - tenant, landlord, types of rent, location of farm, etc.

Part II) Specific data for years 1972 to present on cash rent terms, factors of the lease, etc.

Part III) A way to relate cash rent data to an agronomic soil productivity system - corn suitability rating.

For such a survey and data bank to be helpful, data must be collected from every township in the state. In Iowa, the plan is to ask each individual or firm preparing farm income tax returns to request taxpayer's to complete a questionnaire if cash rent is involved in his operation. Farm lenders may also be asked to assist in obtaining survey data.

Completed questionnaires would be kept by a custodian of a local file. Recognizing the sensitivity of the cash rent data collected, it is very important for each county to have a local custodian. His duties include:

- 1) Allow access to the file by eligible parties (see below).
- 2) Care to prevent ~~unauthorized~~ release of information.
- 3) Maintain file up-to-date to facilitate use.

Local groups may wish to form a nonprofit corporation to govern and operate the local file.

Access to the file would be available during closing of an estate through completion and acceptance of final audit, and litigation. The following would have access:

- 1) Fiduciary or agent for estate with land in area.
- 2) Attorney for the estate.
- 3) Distributee, executors, or administrator of land in area.
- 4) Representatives of IRS.

- 5) Depts. of Agronomy, and Economics personnel at Iowa State University
- 6) Iowa Dept. of Revenue, if future legislation makes it necessary,

A pilot program was launched in the spring of 1978, but as yet I have no word of it's effectiveness.

2032A (e) (8) The Five Factor Formula

While the cash rent method valuing farmland may be favored, circumstances may force the valuation of qualified farm properties according to the five factors listed in 2032A (e) (8). In short the five factors are:

- 1) Capitalization of expected income.
- 2) Capitalization of the fair rental value of the land for farmland or closely held business purpose.
- 3) In Ohio - Current Agriculture Use Valuation - differential assessment for farmland.
- 4) Comparable sales - but excluding nonagricultural use influences.
- 5) Any other factor which fairly values the farm or closely held business value of the property.

This approach also provides some opportunity to lower Federal estate values, but implementation is again difficult. Two obvious and major concerns are:

- 1) What is an appropriate capitalization rate to use?
- 2) How do we weight the relative importance of each factor? Boehlje and Harl [3, p. 8] summarize it rather succinctly in this manner, "Certainly this method is no more definitive in computational procedure or data base than the capitalization approach."

Since the annual effective interest rate of new FLB loans is used for 2032A (e) (7), it's likely a variation could be used for (1) and (2), above. Both of these approaches should yield conservative values, that should be arguably valid, and would exclude much of the speculative value in the FMV of farmland.

An example of land values for various expected price, yields, and capitalization rates shows the wide range of values that can occur (Table 6).

Ohio's Current Agricultural Use Valuation (CAUV) tables provide a procedure for estimating land values based on soil type, land capability class, region, and other factors. Again, in most cases, it would probably yield a conservative price. For general information on Ohio's CAUV see MM-349, Current Agricultural Use Value Taxation of Ohio Farmland, available at your county Cooperative Extension Service office or County Auditor.

The comparative sales approach needs to be done, regardless of whether or not 2032A is considered. This will generally be the major way to determine FMV of the property. The only difference may be to exclude sales with undue urban influence. In many cases, the value determined in (3) will also be the Fair Market Value.

Combining the five factors and arriving at a value to use requires some means of weighting each of the approaches. It's highly unlikely IRS will allow recognition of the value from a single factor--especially when it results in the lowest valuation. Equal weighting of each may be a more reasonable rule.

How might valuations under 2032A (e) (7) and (e) (8) compare? While individual cases will vary, let me give you my "guesstimate" of how they may compare in a relative sense.

Let's begin with 2 assumptions: 1) That the comparable sales approach comes up with a value of X and that it is equal to FMV., 2) That we use equal weighting on each of the four factors we used under the Five Factor Approach, and 3) That the same FLB interest rates are used for both approaches.

Table 6 Capitalized Value of Land When Planted 100% to Corn at
1978 Computed Cost Levels

	Above Average Soils				Top Productivity Soils			
Price of Corn	\$2.00	\$2.25	\$2.50	\$3.00	\$2.00	\$2.25	\$2.50	\$3.00
Corn Yield	110	110	110	110	140	140	140	140
Gross Income/Acre	\$220	\$248	\$275	\$330	\$280	\$315	\$350	\$420
Est. 1978 Cost Less Land Investment ^{1/}	190	190	190	190	223	223	223	223
Net Return to Land	\$30	\$58	\$85	\$140	\$57	\$92	\$127	\$197
Land Capitalized Value/Acre if Capitalized at: ^{2/}								
6%	500	967	1417	2333	950	1533	2117	3283
8%	375	725	1063	1750	713	1150	1588	2463
10%	300	580	850	1400	570	920	1270	1970

^{1/} See Table 1 for 1978 estimates.

^{2/} This means you could invest this much per acre and make the indicated return on the investment or if borrowing money could afford to pay this interest rate if your net returns to land are those budgeted above. For example, assume in column 3 with corn at \$2.50 per bushel and net return to land of \$85 per year, further assume an 8% rate of interest ($\$85 \div .08 = \1063 capitalized value per acre.)

Source: Rask [7]

<u>Valuation Method</u>	<u>Value Per Acre</u>
2032 (e) (7) Cash Rent Capitalization	.40X
2032A (e) (8)	
1) Capitalization of expected income	.45X
2) Capitalization of rental value	.45X
3) CAUV land values	.70X
4) Comparable sales (excluding non-agr. factors)	X
5) Other factors	Did not apply
$\frac{.45X + .45X + .70X + X}{4} = \frac{2.6X}{4} = .65X$	

What do these mean? Based on the Iowa and Indiana observations reported earlier, lets assume that using (e) (7), the alternate use value would be 40% of the FMV of X. Then I made some judgment estimates of how the other valuation methods might compare to (e) (7) and to FMV. Using a equal weighting scheme, (e) (8) would result in an alternate use value that would be about 65% of FMV. Data from the actual case shown in Appendix C yielded a cash rent valuation that was 30% of FMV, and a Five Factor Method valuation that was 58% of FMV. If these are at all realistic of the relative values that may occur, even use of (e) (8) could lead to fairly substantial reductions in estate values.

On large estates either might work, since the \$500,000 limit may quickly be reached. However, on smaller estates a 35% reduction per \$1 FMV may not be as beneficial as a 60% reduction per \$1 of FMV. It will require added appraisal fees to get either of these two methods documented and calculated. Registered appraisers may, in fact, find it simpler to do the Five Factor Method, since they don't need to find--and verify--5 years of cash rent on comparable land. Instead all computations are on the subject farm, using traditional appraisal methods.

Conclusions

Farmers will undoubtedly push hard for attorneys, executors, administrators,

etc. to consider 2032A because of the potential tax savings.

But attorneys and executors must examine many facts before recommending the use of 2032A. The first decision is: Do we qualify on past performance? Second: Do we expect to meet future requirements? If you feel you could use it, then look at how to get 2032A benefits. But there are difficult, and thus probably costly, problems to be faced to come up with defensible values. The lowest values will be possible using 2032A (e) (7). At this point it appears the regulations will require strict adherence to actual cash rent data to get 2032A (e) (7) values. There are simpler, less costly approaches that could be used, but it appears the regulations may not permit their use. Ohio may want to consider a cash rent data bank, if Harl's system seems to work in Iowa. But it represents a cumbersome process, and builds in an overhead cost. In addition, several forces--including qualifying for Alternate Use Valuation, may lead to less use of cash rent. Finally, don't just write off alternate use valuation because of a scarcity of cash rents. The Five Factor Method may be a ready substitute and still allow capture of much of the tax savings, the heirs may insist upon.

Bibliography

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Appendix Table 1 - Annual Estimates and Percentage Change of Farm Real Estate Values,
U.S., 1968-78

Year	FARM REAL ESTATE VALUE				Annual Percentage Change (%)
	Land (Bil. \$)	Buildings (Bil. \$)	Total (Bil. \$)	Per Acre (\$)	
1968	155	37	192	179	
1969	163	38	201	188	5
1970	168	38	206	195	5
1971	176	38	214	203	4
1972	197	42	239	219	8
1973	219	47	266	247	13
1974	270	57	327	302	23
1975	303	64	367	354	14
1976	344	71	415	387	13
1977	399	83	482	450	16
1978	434	90	524	490	9

Source: Farm Real Estate Market Developments, ESCS, USDA, VARIOUS ISSUES.

Appendix Table 2 - Annual Estimates For Total Farm Rentals of Cash Rents,
Percentage Change, and Rates of Rent to Value, Ohio, 1968-78

Year	TOTAL FARMS-CASH RENT		
	Rent Per Acre (\$)	Annual Percentage Change (%)	Ratio of Rent to Value (%)
1968	21		5.2
1969	21	0	5.1
1970	23	10	5.3
1971	N.A.	N.A.	N.A.
1972	23	0	N.A.
1973	25	9	5.2
1974	29	16	4.6
1975	33	14	4.6
1976	41	24	4.6
1977	47	15	4.6
1978	53	13	4.4

Appendix Table 3-Annual Estimates for Pasture Land of Cash Rent, Percentage Change, and Ratio of Rent to Value, Ohio, 1972-78

Year	Per Acre (\$)	Annual Percentage Change (%)	Ratio of Rent to Value (%)
1972	13		4.6
1973	14	8	4.5
1974	16	14	4.3
1975	17	6	4.5
1976	18	6	3.5
1977	21	17	3.1
1978	23	10	3.0

Cash Rents
 Part I

1. Person interviewed _____ Address _____
2. Role of person interviewed: _____ landlord _____ tenant _____ other (specify) _____
3. Interviewer _____ Address _____
4. Date of interview _____
5. Landlord _____ Address _____ Tel. no. _____
6. Tenant _____ Address _____ Tel. no. _____
7. Code number for part of farm cash rented _____ Acreage _____

Year	Whether cash rented (yes or no)	Part of Farm Cash Rented		(County)	(Interviewer)	(Tract)	(Section)	(Township)	(Range)	Acreage
		All	All but residence	(2 digits)	(2 digits)	(1 or more 2 digit number)	(2 digits)	(3 digits)	(2 digits)	
1972										
				Landlord						Address _____
				Tenant						Address _____
1973				Landlord						Address _____
				Tenant						Address _____
1974				Landlord						Address _____
				Tenant						Address _____
1975				Landlord						Address _____
				Tenant						Address _____
1976				Landlord						Address _____
				Tenant						Address _____
1977				Landlord						Address _____
				Tenant						Address _____
1978				Landlord						Address _____
				Tenant						Address _____

Statement of Person Interviewed

I hereby agree to insertion of the above information in a file maintained in _____ county for such questionnaires and to disclosure of said information by the custodian of the file to those individuals demonstrating a need to know such information for federal estate tax purposes or for state succession, inheritance or estate tax purposes if property subject to such tax is valued at other than fair market value.

 Person Interviewed Date

Form CR-11A Uniform Questionnaire Custodian's Id. No. _____
Cash Rents County _____
Part II

1. CODE NUMBER IF ENTIRE FARM CASH RENTED _____ (County) (Interviewer) (Tract) (Section) (Township) (Range) (Enter in Part III)
 (2 digits) (2 digits) (1 or more 2 digit no.) (2 digits) (3 digits) (2 digits)

	1978			1977			1976			1975			1974			1973			1972			
	Acres	\$ Rent	Prop. Tax	Acres	\$ Rent	Prop. Tax	Acres	\$ Rent	Prop. Tax	Acres	\$ Rent	Prop. Tax	Acres	\$ Rent	Prop. Tax	Acres	\$ Rent	Prop. Tax	Acres	\$ Rent	Prop. Tax	
a. Gross cash rent ^{1/}																						
Total farm ^{2/}																						
b. Separate rental charged for residence or farmstead	_____																					
c. Was residence or farmstead occupied by the farm tenant (FT) or another lessee (L)	_____																					
d. Length of lease ^{3/}	_____																					
e. Effective date of lease ^{4/}	_____																					
f. Length of time tenant has been renting this land from present landlord: _____ this is first year, _____ 1-3 years, _____ 4-10 years, _____ more than 10 years																						
g. Relationship of landlord and tenant ^{7/} : _____ Parent/child ^{6/} or grandchild, _____ brother/brother (or sister), _____ uncle/nephew (or niece), _____ spouses, _____ no relation, _____ controlled corporation, _____ controlled partnership, _____ other (specify _____)																						

1. CODE NUMBER IF LESS THAN ENTIRE FARM CASH RENTED _____ (County) (Interviewer) (Tract) (Section) (Township) (Range) (Enter in Part III)
 (1 or more 2 digit no.) (2 digits) (3 digits) (2 digits)

	1978			1977			1976			1975			1974			1973			1972			
	Acres	\$ Rent	Prop. Tax	Acres	\$ Rent	Prop. Tax	Acres	\$ Rent	Prop. Tax	Acres	\$ Rent	Prop. Tax	Acres	\$ Rent	Prop. Tax	Acres	\$ Rent	Prop. Tax	Acres	\$ Rent	Prop. Tax	
a. Gross cash rent ^{1/}																						
Total tract																						
Pasture only ^{5/}																						
Hay only ^{5/}																						
Row crop only ^{5/}																						
i. Length of lease ^{3/}	_____																					
j. Effective date of lease ^{4/}	_____																					
k. Length of time tenant has been renting this land from present landlord: _____ this is first year, _____ 1-3 years, _____ 4-10 years, _____ more than 10 years																						
l. Relationship of landlord and tenant ^{7/} : _____ Parent/child ^{6/} or grandchild, _____ brother/brother (or sister), _____ uncle/nephew (or niece), _____ spouses, _____ no relation, _____ other (specify _____)																						

NOTE: Use additional sheets if needed to show different rental arrangements during the time in question. Footnotes on reverse side.

I, _____, hereby agree to insertion of the above information in a file maintained in _____ county for such questionnaires and the disclosure of said information by the custodian of the file to those individuals demonstrating a need to know such information for federal estate tax purposes or for state succession, inheritance or estate tax purposes if property subject to such tax is valued at other than fair market value.

 Person Interviewed _____
 Date

Cash Rents
Part III

1. Code number of tract _____ Assessor's Tract No. _____
(County) (Interviewer) (Tract) (Section) (Township) (Range)
(2 digits) (2 digits) (1 or more (2 digits) (3 digits) (2 digits)
2 digit no.)

- a. Corn suitability rating (CSR)^{1/}
Weighted average for tract described above _____
Does the above CSR weighted average for tract include adjustments for drainage ways, till outcrops, etc.? Yes^{2/} _____ No
- b. Assessed value for improvements (if any) _____
- c. Assessed value for land (not including improvements) _____

2. Code number of tract _____ Assessor's Tract No. _____
(County) (Interviewer) (Tract) (Section) (Township) (Range)
(2 digits) (2 digits) (1 or more (2 digits) (3 digits) (2 digits)
2 digit no.)

- a. Corn suitability rating (CSR)^{1/}
Weighted average for tract described above _____
Does the above CSR weighted average for tract include adjustments for drainage ways, till outcrops, etc.? Yes^{2/} _____ No
- b. Assessed value for improvements (if any) _____
- c. Assessed value for land (not including improvements) _____

3. Code number of tract _____ Assessor's Tract No. _____
(County) (Interviewer) (Tract) (Section) (Township) (Range)
(2 digits) (2 digits) (1 or more (2 digits) (3 digits) (2 digits)
2 digit no.)

- a. Corn suitability rating (CSR)^{1/}
Weighted average for tract described above _____
Does the above CSR weighted average for tract include adjustments for drainage ways, till outcrops, etc.? Yes^{2/} _____ No
- b. Assessed value for improvements (if any) _____
- c. Assessed value for land (not including improvements) _____

Note: Use additional sheets if needed to show different rental arrangements during the time in question.

1/ See reverse side for explanation of computational procedure.

2/ If adjustments have been made in the CSR rating, as indicated, please provide information on nature of the adjustments made. A machine copy of the assessor's card would be acceptable if the adjustments are reflected thereon.

APPENDIX B (cont.)

Footnotes

- 1/ Gross cash rent is defined as the rent on land for a specified period at an agreed upon amount per acre or per farm with the landlord bearing no uncertainty of yield or price variation.
- 2/ If the rent charged varies for row crop, pasture and hay land, use item 2 below rather than this item.
- 3/ Length of lease means length of original lease in force for that year. Leases that are renewed, with renegotiation or otherwise, are considered new leases for this purpose.
- 4/ This is the date the lease first became effective. A one-year lease, even if automatically renewed, is a one-year lease for this purpose with an effective date, usually, of March 1.
- 5/ If available.
- 6/ A child/step parent relationship is to be treated as a lease between unrelated parties.
- 7/ If the leasehold relationship, whether because of a fiduciary duty, presence of a farm manager or otherwise, has produced a rental that approximates reasonably a fair rental value, this arrangement is to be treated as a lease between unrelated parties.

Appendix C - Example of Appraisal Values for a Central Ohio Farm, 1978.

The following figures are for an example farm in central Ohio that was appraised in 1978. This farm of 400 acres was appraised at \$2500 per acre, or a total of \$1,000,000. Included on the farm were 2 houses, machinery storage, and other buildings valued at \$100,000, including 10 acres of lots, woods, and road frontage. So looking only at the cropland we have roughly 390 acres at \$900,000 or \$2300 per acre Fair Market Value (FMV).

Cash rent on comparable land for the 5 year period 1973-77 is estimated to be \$75 (probably too high) and real estate taxes averaged \$15 per acre (land only) for the same 5 years. The net of \$60 per acre divided by 8.80% yields a value of \$682 per acre, or 30% of FMV, under 2032A (e) (7).

Valuing the same farm under 2032A (e) (8) requires the appraiser to estimate future profitability. But now all calculations relate only to the subject farm--no search need be made for comparable land, (or adjustments made to achieve comparability), which was cash rented for the previous 5 years, and for which verifiable cash rents can be obtained. A competent farm appraiser could probably complete the appraisal under (e) (8) in less time than under (e) (7). Share rent returns to the landlord on this farm (landlord income less management fees and real estate taxes) are projected to be \$90 per acre. This yields a capitalized rental value at 8.8% of \$1023 per acre. The capitalization of expected income would add back the management fee and yield a value of about \$1080 per acre.

The Current Agricultural Use Value (CAUV) on this land (about 3/4 Brookston and 1/4 Crosby) would be \$955 per acre. And the FMV is used as the comparable sales value. However, due to it's location, an argument could be made to

1/ Alternate Use Value figures were estimated with Dr. E. T. Shaudys, Department of Agricultural Economics, and ARA, American Society of Farm Managers and Rural Appraisers.

discount that value to exclude non-agricultural factors.

The four values under (e) (8) are then 1) \$1080, 2) \$1023, 3) \$955, and 4) \$2300 per acre for the 390 acres of cropland. Weighting these equally yields an average value for 2032A (e) (8) of \$1340 per acre, or 58 percent of FMV.

The effect of the 3 appraisal approaches on the value of the farm in the gross estate follows:

<u>Appraisal Method</u>	Value in Gross Estate of:		
	<u>Cropland</u>	<u>Bldgs. & Other</u>	<u>Total</u>
Fair Market Value	\$900,000	\$100,000	\$1,000,000
Alt. Use Value (2032A (e) (7))	265,980	100,000	365,980
Alt. Use Value (2032A (e) (7))	522,600	100,000	622,600

However, since the alternate use valuation cannot reduce the value of the gross estate by more than \$500,000 we would only need to specially value about 300 acres to achieve the maximum benefit. Use of the Five Factor Method leads to a \$377,000 reduction in the value of gross estate.

